1981 Annual Report

AGT
Telecommunications

HIGHLIGHTS

(In thousands of dollars)	1981	1980
Plant Investment	**$ 2 657 077**	$ 2 244 861
Capital Expenditures	**$ 480 014**	$ 380 957
System Telephones	**1 333**	1 218
Long Distance Messages	**198 930**	177 788
Total Revenues	**$ 734 462**	$ 636 828
Net Income	**$ 1 056**	$ 24 748

The Alberta Government Telephones Commission 1981

1906

Honourable W.H. Cushing Minister of Public Works

John R. Stocks Deputy Minister of Public Works

Honourable Dr. P.N. Webber
Chairman
Associate Minister of Telephones

Honourable L.R. Shaben
Vice-Chairman
Minister of Utilities and Telephones

J.A. Barnes
President

D.F. Baillie
Vice-President
Customer Sales and Service

J.C.D. Mallet-Paret
Vice-President
Operations

J.R. McDonald
Vice-President
Administration

H.M. Neldner
Vice-President
Finance

J. Szaszkiewicz
Vice-President
Corporate Planning and Network Development

A.F. Collins
Deputy Provincial Treasurer

V.A. MacNichol
Deputy Minister
Utilities and Telephones

R.A. Bickell
Grande Prairie
Vice-President and General Manager
North Canadian Forest Industries Ltd.

J.W. Burrows
Calgary President
Travacon Ltd.

W.A. Graham
Edmonton Chairman
Western Supplies Ltd.

F.S. Weatherup
Lethbridge Chairman
Saville Land Development Ltd.

Mr. MacNichol joined the Commission July 1, 1981 on the retirement of R.G. Steele.

Head Office
Alberta Telephone Tower
1 McCauley Plaza
10020 - 100 Street
Edmonton Alberta
T5J 0N5

AGT 75 YEARS OF PROGRESS

To celebrate 75 years of progress AGT offers not one, but two Annual Reports.

1981 stands side-by-side with 1906, when a new province set out to provide Albertans with their own telephone system.

1981 may be viewed from the perspective of 1906 — and vice versa.

Dr. Neil Webber, chairman of the AGT Commission, chats with Andy Lashuk, operating a data test board which went into service in 1981. If a data customer anywhere in the province has trouble with a machine, the problem can be duplicated on test boards in Edmonton or Calgary and a quick diagnosis made. Continuing a trend, the number of data circuits increased by 35 percent in 1981. Andy is 29, about the typical age of AGT's 4 150 regular craft employees. He grew up in Athabasca, trained at the Northern Alberta Institute of Technology, and has been seven years with AGT.

The Chairman's Message

For 75 years it has been the duty of the Minister responsible for the provincial telephone system to make an annual report to the Legislature and people of Alberta.

Some of those years were good, others were difficult, but even in the meanest years the Minister was able to report progress by AGT — thanks to the expertise and dedication of its employees. The report on 1981 will assure the people of Alberta that this still applies.

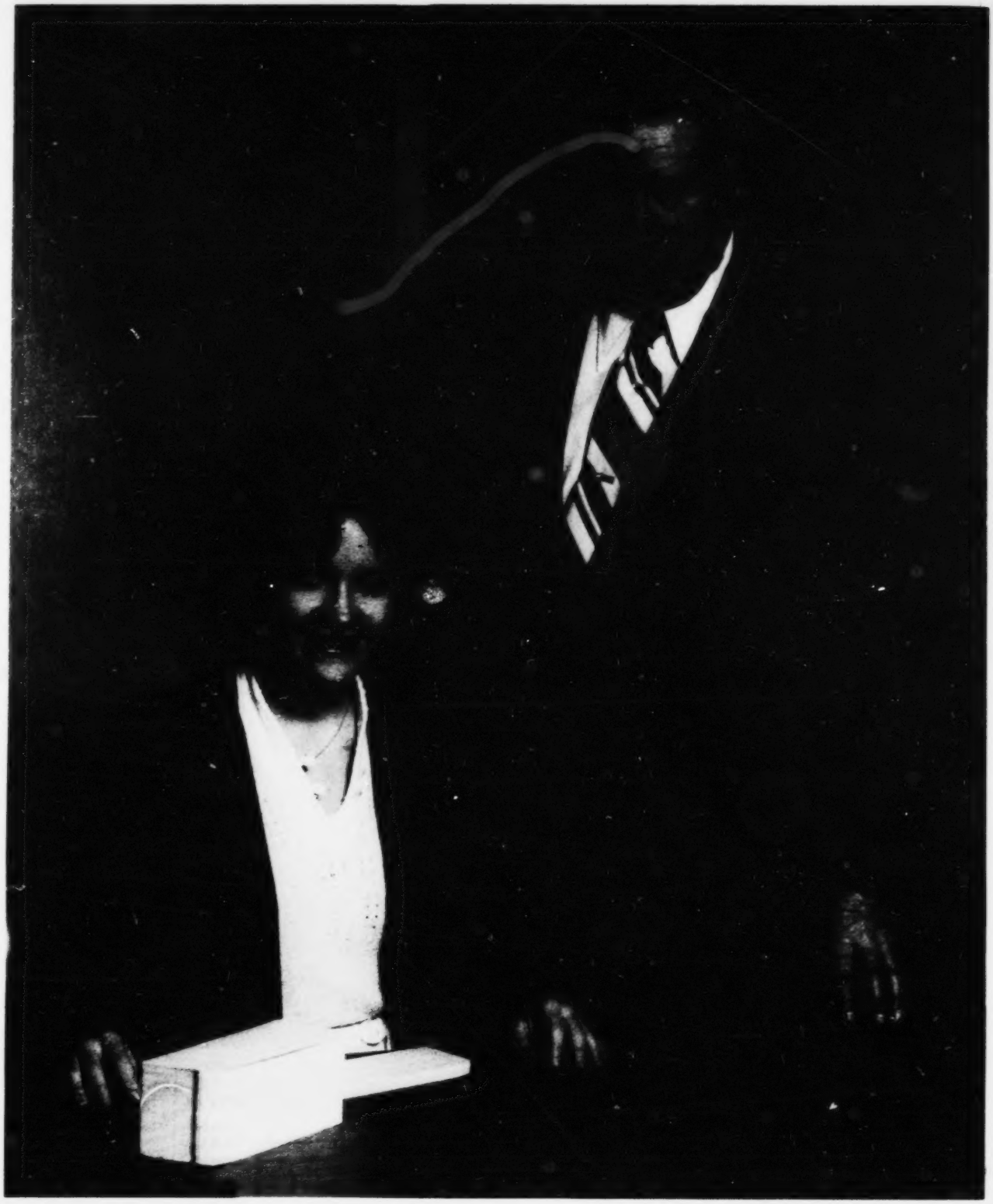
In terms of technological advance AGT is one of the leading telephone companies of the world. I am confident that this fact will be recognized in some far corners of the world as AGT becomes involved with other telecommunications suppliers in consulting and development work authorized by the Legislature in 1980.

AGT's standing in its special field of technology should be a strong advertisement for Alberta and help attract "leading edge" industry to participate in the development of the province.

It should also attract the calibre of employee AGT will need to continue providing basic communications to all Albertans, the mandate it was given 75 years ago.

Neil Webber

Associate Minister of Telephones



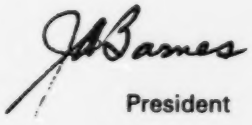
Jim Barnes, president of AGT, visits Susan Hunter, an employee who began work on September 1, 1981, AGT's 75th anniversary. Susan, 18, is on her first job, processing toll tickets from operator-assisted long distance calls. She is with the 3 300-member clerical group, second largest in the system.

The President's Message

In 75 years AGT has had to respond to changing technology in the work place and rising expectations in our customers, but never at the pace which faces us now. All the technological knowledge and team spirit built up through our history will be needed to meet the challenge of the years just ahead.

The years ahead will require us to retain much of our present equipment and technology and adapt it to take advantage of the benefits of new products and developments coming on the market so rapidly. Further changes in methods of operation and doing business with our customers will have to be implemented as we install new transmission and plant facilities in the communities we serve.

In order to achieve this we must continue to dedicate ourselves to the idea of good service — both to customers and internally to other parts of the AGT system. The growth of Alberta and the advance of technology in all forms of telecommunication require us to continue our pace of the last several years. I look forward to a challenging and successful future for AGT.



President

The Calgary Albertan - September 6.

LBERTA STARTS ITS TELEPHONE WORK

ill Begin Construction of the Banff-Calgary Next Week

ext week the Alberta government l inaugurate its long distance sya. It will start a line from Cal- y to Banff. The construction of work will be under the direction James Grierson of Calgary, who been appointed superintendent of struction for the Alberta govern-

e work will be rushed and it is cted that the government will e the people of Banff, Canmore, lbead, Exshaw, Cochrane, Mor- and other intervening points the rtain privilege of speaking on a long distance line between themselves and with Calgary.

This is the beginning of the long distance system to be inaugurated by the Alberta administration.

The material is now almost ready for the work.

The next work that will be done will be next winter when a line of telephone will be sent out from Edmonton to the east, probably as far as Lloyd minster.

The government operation of the telephone is the first that has been undertaken by any government in Canada.

All the employees of 1906.

J.H. Grierson, Construction Superintendent, engaged September 1.

The Calgary Albertan - September 11.

The building of the Provincial Telephone has been started. The first work was done on Tuesday last. Work would be prosecuted more vigorously but for the dearth of material.

A.J. Richards, "Telephone Expert", began work October 1.

1981 System Growth

Capital Expenditures

1906 $19 253.35

1981 $480 014 000.00

Financing for the 1981 program was generated by operation of the system, with external funding, primarily from the Alberta Heritage Savings Trust Fund.

Toll and Exchange

In 1906 AGT began construction of its first network. It was in the analog mode, which transmits the voice in continuous waves.

In 1981 major steps were taken to convert the network to digital mode, which transmits the voice as a series of electronic pulses and can also transmit data.

Development of the network to the capacity and standard required in Alberta of the 1980s is the responsibility of a highly-specialized work force.More than 500 personnel are engaged in the design of the network. These include 200 professional engineers. A further 800, technicians and craftsmen, are engaged in implementing the design.

Digital transmission is the mode of the future, a future that must be reached in stages. AGT has a large investment in the traditional analog mode, which has many years of useful life.

Important advances were made in 1981. Digital toll switches were turned up in Calgary, Edmonton and Grande Prairie. In Calgary three exchanges were converted. The replacement program also brought digital mode to Airdrie, Stettler, Wainwright, Bonnyville and St. Albert, for a total of 22 among some 408 exchanges.

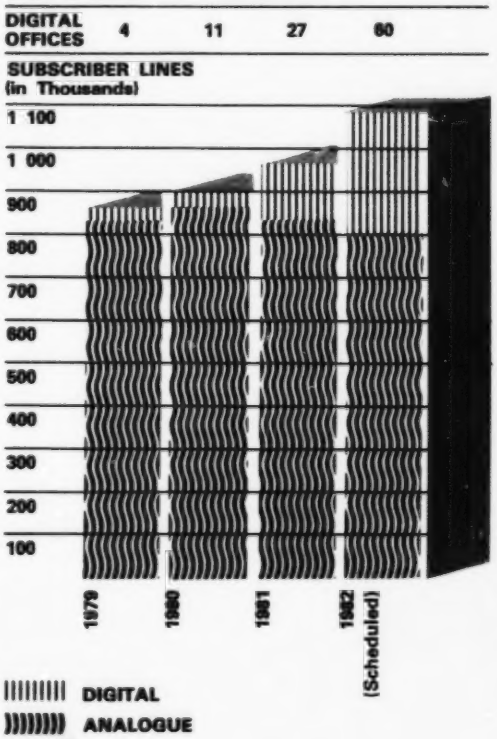
Routes carrying TransCanada Telephone System traffic within Alberta are owned by AGT. To meet Alberta's commitment to the national communications network they were given extra capacity in digital mode.
The first digital route from eastern Canada to the west coast, completed as far as Calgary in 1980, was extended to the B.C. border at Crowsnest Ridge. Digital capacity was also doubled on the Calgary-Edmonton spur with one channel of 1 344 circuits.

The digital thrust has produced a noteworthy side-result. It has made AGT one of the industry leaders in applying fibre optics to telecommunications technology. An opportunity arose in the late 70's when more capacity was required to carry toll traffic between downtown Calgary and the metropolitan junction at Cheadle, 30 miles to the east.

Three options were studied. Microwave radio was no longer practical because of high-rise buildings. Coaxial cable was being phased out by manufacturers. Fibre optics was the future but the future was vaguely defined. AGT and the industry both needed a learning process: a development project in which first-time technology would be used in a real-life application.

The Cheadle-Calgary link was brought to operational readiness in 1981 and scheduled for service in early '82 along with three other applications of fibre optic technology which flowed from that project. Additions to the network interconnecting exchanges within the city of Calgary were made with fibre optics and wire-line entrance-links were run from Sherwood Park to the Edmonton toll office, and from the Lethbridge radio-relay site to downtown.

AGT'S DIGITAL PROGRESS



Telephones

In 1906 there were some 2 000 phones in Alberta, leased by the Bell system, the city of Edmonton, and local companies in Lloydminster, Red Deer, Fort Macleod, Banff and the Crowsnest Pass.

In 1981 AGT had 1 333 358 phones in service. (Another 498 366 were operated by edmonton telephones).

During the year 100 000-plus telephone sets were purchased from three manufacturers to meet anticipated demand.They included 65 different models in one to eleven different colors.

The jacking of residences continued. By the end of 1981 jacks had been installed in 84.5 percent of Alberta homes in territory served by AGT. The number of homes in the program reached 414 200. Begun in 1974 the program is scheduled for completion in 1985.

Business

In 1906 the telephone was mainly an instrument for business communication. Of 2 000 sets in Alberta, two-thirds were business phones.

In 1981, AGT added modern dimensions to the business telephone, investing in equipment for Business Communications, Altel Data and Mobile Communications.

In the first category most activity was in replacement, as digital mode was brought to the private branch exchange — PABX.

Altel Data, a division of AGT, provides business customers with data equipment — by lease or sale. In 1981 purchasing reflected continuing strong demand for mini-computers (35 new systems), interest in a new version of the Vucom 2 more flexible and expandable than the old model, and demand for a multiplexer introduced in 1980. This device enables a customer to concentrate up to six terminals on one communications line.

Alberta has one of the largest public mobile telephone systems in the world. In 1981 there were some 25 000 users, an increase of 2 000. Seven of eight mobile customers lease equipment from AGT.

While effects of the National Energy Policy cut by half the expected increase in public mobile, there was a net gain of 2 300 mobiles in private systems. Telemetry was a new market entry, serving a pipeline in northeastern Alberta and an irrigation project in the south.

Service of Mobile Communications,a division of AGT,is important to Alberta's resource industries. To upgrade forestry service 1 000 new mobiles were added in 1981.

Major Data Processing

In 1906 scattered information of historic importance was recorded in longhand by a clerk in Public Works.

In 1981 AGT added more than 50 percent to the computer capacity of the system which processes and retrieves internal information.

A Data Processing Information Centre was established to help user departments make more efficient use of the system, and an in-house education program is endeavoring to offset the industry-wide shortage of skilled data processing staff.

Two new systems went into service in 1981. The Switched Network Analysis System III allows repair resources to be more quickly dispatched, optimizing manpower, while the Accounts Payable system optimizes cash flow.

Vehicles, Tools, Buildings and Furniture

In 1906 AGT's only vehicle was a horse-powered dray.

In 1981 AGT added 183 motorized vehicles to the fleet for a total of 3 800. Developing fuel efficiency and longer engine life are top priorities. In the replacement category gasoline is giving way to diesel, and in a system-wide test of propane, eleven vehicles were converted.

In 1906 tools were manual and many were supplied by the workmen themselves.

1981 tools included power-operated cranes and cable plows married to motorized vehicles; and electronic test gear driven by computer technology. AGT put into service a testing device developed by AGT's engineering laboratory to speed the conversion of analog exchanges to digital mode. Beginning with a factory-built computer AGT technicians designed and built a box to interface simultaneously with the old switch and the new, so that lines being transferred to the digital switch can be checked automatically. The device tests each line individually in 10 seconds and gives a printout of results. A manual check would take 15 minutes. Six interface units were being built for the '82 program.

In 1906 AGT leased part of a room in the Empire Block, Edmonton.

In 1981 AGT owned or leased some 900 buildings throughout the province. 650 housed operating equipment, with the capital cost considered part of the network. In the category of "buildings not associated with a toll or switching facility", an impressive addition was the AGT Tower, Calgary, opened officially on November 20.

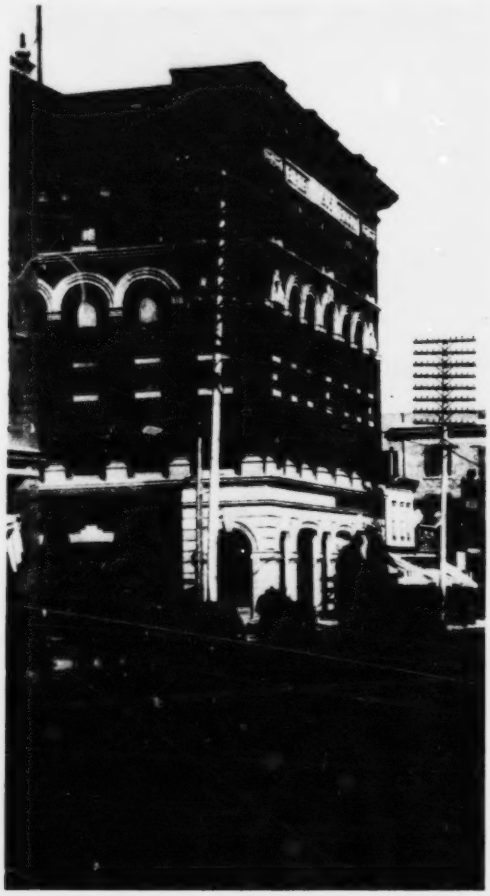
New work centres were built in Medicine Hat, Slave Lake and Swan Hills and extensions were made to centres in Whitecourt and Rocky Mountain House.

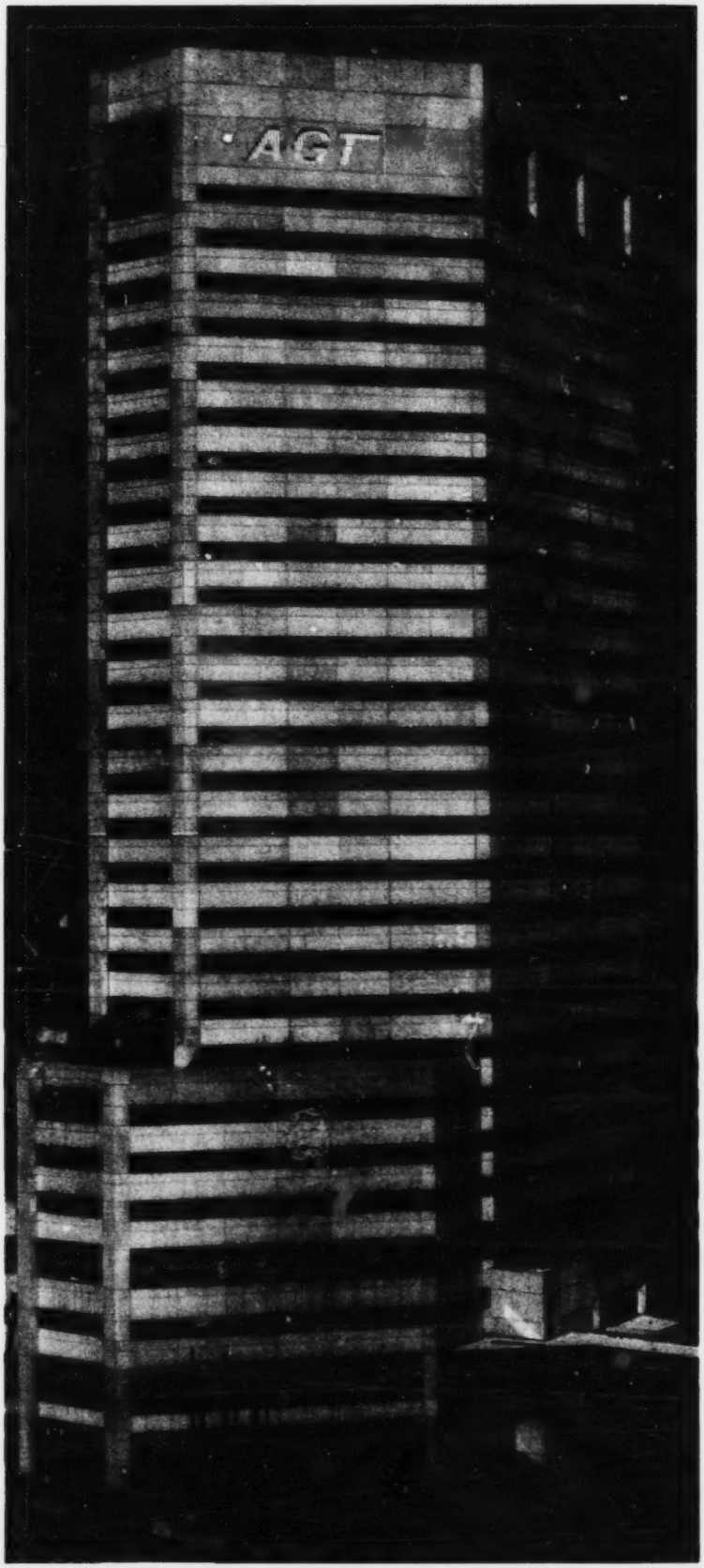
In 1906 AGT had two employees, one outside, one inside. The inside man had a desk and chair supplied by Public Works.

In 1981 investment in office furnishings reflected an increase in staff. At the end of 1981 the number of full time employees had risen to 12 750. Additional part time employees brought the staff total to 13 429.

1906

AGT leases part of a room in the Empire Block, the tallest new office building in Edmonton, for its one inside employee.





1981

For 1 600 Calgary employees, there occurs on November 20 the official opening of the AGT Tower, AGT's largest in terms of space. The distinctive eight-sided building has 588 000 square feet of office space, compared to 500 000 in Edmonton's head office Alberta Telephone Tower. Energy efficiency is built into the design, with solar-glaze reflective glass, zone lighting, insulation above and beyond the call of the building code, and a thermal tank of 800 000 gallons to store and recycle energy.

1906

A mountain trail approaching Banff.

A horse-drawn sleigh carries the material and the tools for AGT's first project.

AGT's first employee, Jim Grierson, stands sixth from the left amid the gang he has hired on contract.

Men of soft hats and hard noses they display the tools of poleline construction.

At left is a pole guide (with a piece of curved steel on top) to lift the pole off the ground. Next, three men hold pikes (tipped with iron spikes) for raising the pole to the vertical.

In the centre, another man shoulders a post-hole digger like a rifle. Also visible are saws, axes and a pole-skinner for trimming bark.

In front, a crossarm leans against a brazier, and behind, left of the stove pipe, is the waiting pole.

1981 **A road across an Indian reserve near Lac La Biche.**

Tools for constructing a buried-cable line are built right into the vehicle. For the horse-drawn sleigh substitute a Mack truck with low-bed trailer, a D6 Caterpillar tractor.

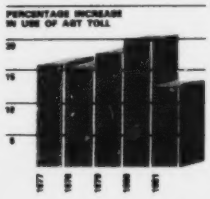
For pikes and saws and post-hole diggers substitute a hydraulic crane built into the truck, a cable-reel carrier and cable plow built on to the tractor. The hard hats protect AGT regular employees: Bob Parsons on the truck, Dennis Olohan and Grant Swain positioning the reel, with Danny Swain on the tractor-cum-plow.

The transfer provides up to 600 meters of telephone cable, to be plowed into the roadside ditch, safe from winter and rough weather.

Operations

In 1906 AGT made plans to operate in a province of 167 000 people, growing at 17 percent a year.

In 1981 AGT operated in a province of 2 166 000 people, growing at four percent a year.



Toll

Long distance traffic, traditionally a gauge of economic activity, confirmed a slowdown of growth in 1981. 199 million messages were carried, an increase of 11.9 percent but well below the level of growth established in recent years.

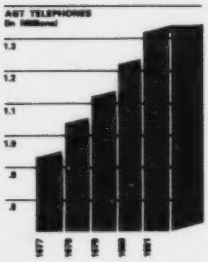
The National Energy Policy had a dampening effect on the oil industry, a heavy user of toll. There was a decline in business long distance which carried through to personal calling. The postal strike made no significant mark on toll use, in contrast to past experience.

Within the change in volume, the pattern of toll use remained constant.

Business-originated calls:	44 percent
Residence-originated:	45 percent
Payphones, hotels, etc.	11 percent

Destinations of the calls were:

Alberta	69 percent
Canada	25 percent
United States	5 percent
World-wide	1 percent



Exchange

For the fourth consecutive year the number of telephones served by AGT exchanges rose by 100 000, bringing the year-end total to 1 333 358.

In providing exchange service in 1981 AGT's liveliest challenge was the city of Calgary. In terms of new building permits Calgary grew by $2.5 billion, second only to Houston's $3.1 billion. The population grew by 2 500 a month to 620 000, as permanent job placements rose 12 percent.

AGT had to serve growth that was both outward and upward. Increasing high-rise density in the downtown core meant the exchange boundaries had to shrink.

To meet customer expectations a digital exchange at Forest Lawn was opened on schedule in February and two others were accelerated. Kingsland cut over in November and Killarney in December.

On the suburban fringe one capability of digital technology was applied for the first time in Alberta. The recreation area of Chestermere Lake was served by remote lines controlled from Forest Lawn exchange.

AGT's eight regional managers noted a continuing trend of commuters moving to the country. Rustic lifestyle now requires modern telephone communication.

And in northern Alberta, the frontier has been reopened for homesteading. In the valley of the lower Peace River, land is being cleared and the pioneers, like those of '06, are confident that AGT will bring them telephones.

Extended Flat Rate Calling

Subscribers of 25 rural exchanges were given EFRC with their business centres. In the foothills, Robb, Cadomin and the hamlet at the entrance to Jasper Park were linked with Hinton. In the south, Carmangay became the eleventh community to gain EFRC with Lethbridge.

That made Lethbridge second only to Edmonton (with 14) as an EFRC centre. When the current program is completed in two years a further 17 exchanges will be added for a total of 285, 84 percent of the system.

Bob Sutcliffe, manager of AGT's Medicine Hat region, chats with Gina Van Ieperen, operator in the Medicine Hat toll office.

Gina is one of 1 510 regular operators, third largest employee group in AGT, who assist customers with long distance calling and directory information. Of some 199 million toll calls originated in Alberta in 1981, 19 percent required assistance by the operator. For billing purposes Gina keys information on each call into a computer. The information shows on the screen. Gina's leisure activities include drawing, crocheting and racquet sports. Twenty years old, she joined AGT in 1979.

Bob Sutcliffe joined in 1958, and became one of AGT's eight regional managers in 1981. In recent years the operation of the system has been reorganized to give AGT a more effective local presence and to recognize the regional differences within Alberta. Bob's Medicine Hat region, in the open "short grass" country where a tree is an event, has expectations of telephone service different from the Grande Prairie region where forestry is a major industry.

Business Communications

Businesses with a need for private internal switching were offered the products of eight manufacturers. In digital mode a PABX can be programmed for a number of software packages. Offered in 1981 were Integrated Voice Data, Automatic Call Distribution, Call Forwarding and Call Detail Recording. Three new PABX products were tested and made available and field-testing began on "the Displayphone," which has a five-inch printout screen for data.

Installations came in all sizes. In Calgary, Esso Resources Canada Ltd. needed a PABX with over 3 000 lines. In the oil-and-timber town of Swan Hills, the operator of a motor hotel found a system suited to his much smaller requirements.

Data Communications

Altel Data continued its vigourous pursuit of the expanding data communications marketplace in 1981. To increase responsiveness to customer needs, changes were made within the organization, and major enhancements to the product line assisted Altel Data in providing a total systems solution for Alberta's business community.

In particular:

- The Altel DataStore opened in Calgary in May marking a new and innovative approach for marketing of data communications products.
- The product line was expanded to include accounting application software and hardware for the small, medium and large business.
- Two new messaging systems were introduced:

  Envoy 80, an administrative messaging service.
  Envoy 100, a TransCanada Telephone System personal messaging service.

In March '81 AGT responded to a business opportunity by turning up a service called Thin Route Satellite. The Anik-B satellite is used, principally to link central offices of Alberta resource industries with exploration sites in remote areas. Voice and data travel from a Calgary exchange to a main earth station, through space to Anik-B and down to a portable earth station in the field.

The service gives a remote site direct voice communication with headquarters. "Low speed" data can be moved by satellite as well. At year end there were eight customers.

Mobile Communications

Operation of the mobile communication network was improved with a vigourous program of replacement and expansion.

41 new base stations were added for a total of 447 covering the entire province. The replacement system is solid state, with low noise level and computerized trunks which allow for queuing and shorten the waiting time for a call to be completed.

The air-to-ground network was completed with ground stations at Lethbridge, Calgary, Edmonton and Fort McMurray. A sales office was opened in Lethbridge and new service centres were opened at Edson, Lloydminster and Fort McMurray for a total of 23.

The Altel DataStore (opened May '81) is a retail style operation emphasizing quick service and same day delivery.

All products offered by Altel Data, from supplies to complete computer systems are on display and available for customers to try and compare.

General

Terminal Attachment Plan

In February 1981 AGT went to the Public Utilities Board of Alberta with a plan containing a fundamental change in the philosophy of operation. After 75 years of mandatory leasing single-line customers would own their telephone sets. Rural subscribers on party-lines would not be affected. Multi-line customers would have the option of buying or leasing.

As AGT saw it, the plan offered monetary benefits to the customer while recognizing current reality.

After a one-year transition the lessee would receive ownership of his phone and of the inside wiring in his house. At the same time his connection fee would drop one dollar a month.

Public hearings attracted a large number of intervenors. In December the application was denied. In the Board's view, it had not been convinced that the absence of a rental option for single-line users was in the public interest.

At year end the Board's decision was being studied,with a view to a new proposal in the best interests of the customer.

TELIDON

In 1981 AGT set up two Videotex field trials using TELIDON, Canada's entry in the international Videotex market. Videotex is a technique for delivery of information. From a host computer information up to color graphics can be sent through a common telephone link to a TV terminal.

In September a trial began linking AGT's host computer with seven libraries in Calgary. The computer was loaded with information on a variety of subjects, which library patrons can select and bring up on the terminal screen with keyed signals.

A field trial in high school education was set up with the Alberta Correspondence School. The computer was loaded with a course in Mechanics. Six schools were chosen for the test — at Didsbury and Rocky Mountain House in central Alberta, Peace River, Spirit River and Worsley in the northwest, and High Level near the northern border.

The trials give AGT information about TELIDON and help in assessing the potential of Videotex systems.

phoneCentres

For residential customers AGT began reorganizing the familiar phoneCentres.

A common design was approved for all fourteen stores and the first to open in the new style was at Lloydminster in September. In the new centre a residential customer can pay his or her account, acquire a telephone, answer-record systems, accessories, gift certificates, security systems and learning aids.

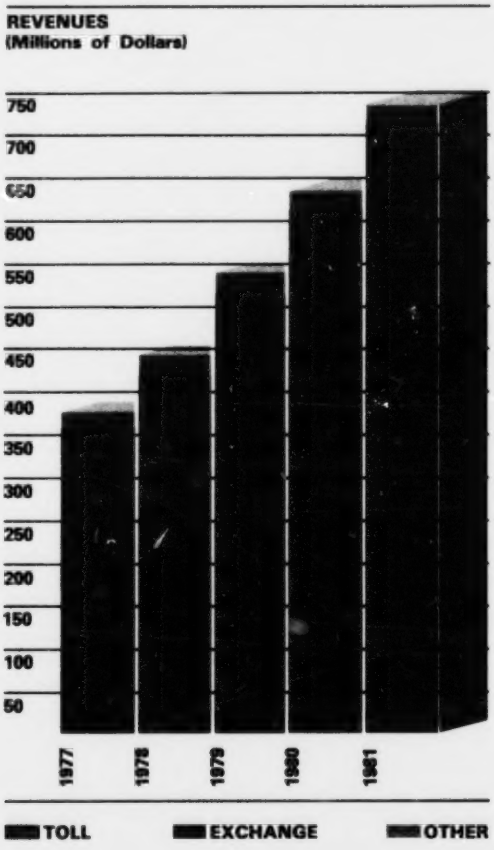
The store also offers a full line of products for people with special communications needs such as hard-of-hearing handsets and Visual Ears.

Financial Review

Financial results for 1981 are a strong reflection of the uncertainties which marked Canada's economic climate, the increasing inflationary pressures and the spiralling cost of capital. Without a repricing of services to offset these factors, and in spite of tight expenditure controls and productivity gains, AGT was unable to maintain satisfactory earnings. Net Operating Revenues for the year fell to $137.9 million from the $138.7 million achieved in 1980.

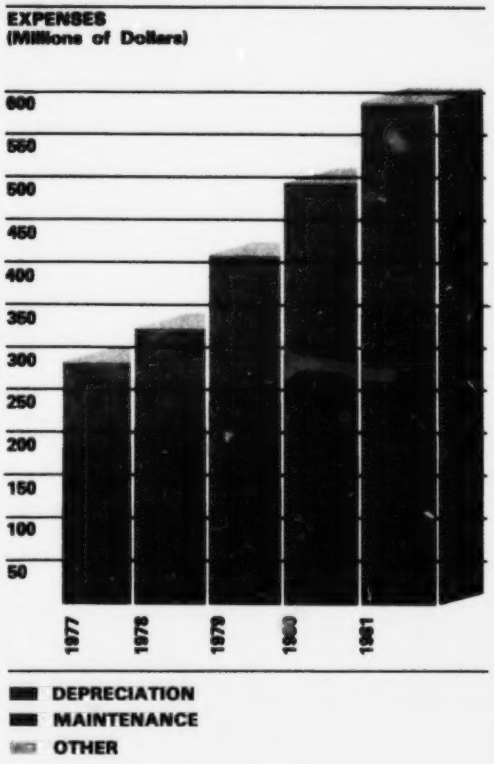
Operating Revenues and Expenses

Total Operating Revenues of $734.5 million for 1981 grew by 15.3% over 1980, a significant reduction from the growth rates experienced during the preceeding three years — 20.4% (1980 over 1979), 19.3% (1979 over 1978) and 20.6% (1978 over 1977). While the growth of telephones continued to be strong throughout 1981, increasing by 115 002 or 9.4%, growth in long distance calling showed a significant decline. Toll Revenues of $488.7 million, representing about two-thirds of total Operating Revenues, increased by only 14.1% as compared to a growth of 21.0% for 1980. This decline was related predominantly to message tolls within Alberta, where growth dropped to 8.3% from the 18.6% experienced in 1980.



Total Operating Expenses increased by 19.8% to $596.5 million. This increase reflects the normal growth associated with meeting the service requirements of an expanding customer base, providing new and improved telecommunications services and the continuing high inflationary increases in the cost of labour, materials and services.

Depreciation constitutes the largest single component of operating expenses. Growth in depreciation decreased considerably from the 1980 level of 20.4% to 13.2% resulting in depreciation expense of $198.9 million. Property and Business Taxes, on the other hand, increased by 51.8% (from $12.6 million to $19.1 million), reflecting changes in legislation which have shifted a significantly greater proportion of the municipal tax burden to utility companies.



Capital Expenditures and Interest Charges

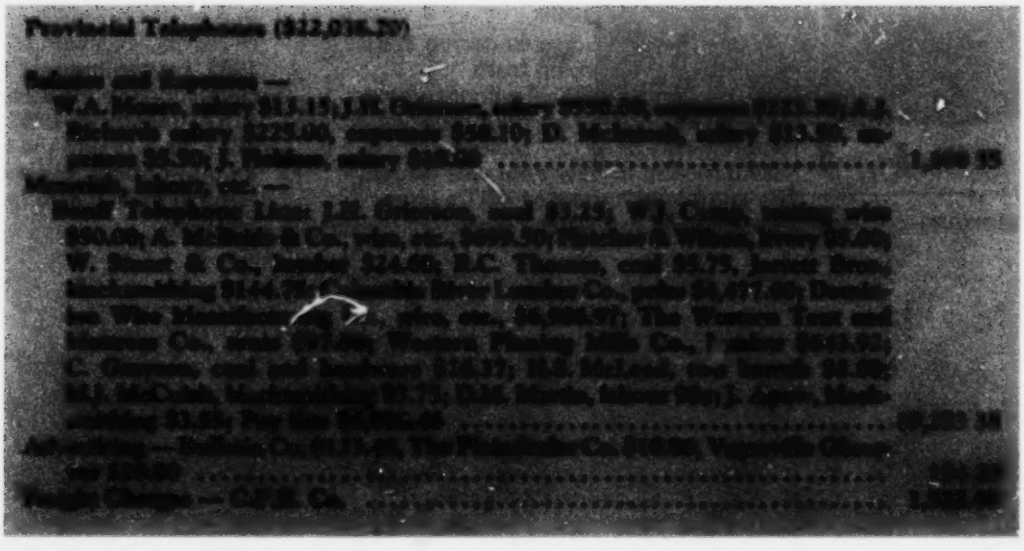
Total capital expenditures during 1981 were $480.0 million, up from $381.0 million in 1980. To finance these expenditures and meet debt redemption requirements of $110.7 million, $385.0 million of new debt was issued. The combined impact of AGT's large capital expenditures and the soaring cost of capital, exceeding 18% at one point in 1981, caused Interest and Other Deductions to increase by 27.7%, from $139.5 million in 1980 to $178.2 million in 1981. As a result, the imbedded cost of long-term debt (outstanding proceeds) jumped from 9.87% in 1980 to 11.28% in 1981.

Financing from the Alberta Heritage Savings Trust Fund

During 1981 the Alberta Government Telephones Commission issued, and sold to the Provincial Treasurer of Alberta, debentures for a total principal amount of $385.0 million. $335.0 million of these were acquired by the Alberta Heritage Savings Trust Fund, bringing total investment in the Commission by the Heritage Fund to $1 460 million at year-end 1981. AGT realized $378.6 million from the debenture issues and used these funds to expand and develop its telecommunications network to meet demands for local, long distance, data and mobile communications services throughout Alberta. Debentures sold to the Alberta Heritage Savings Trust Fund carry rates of interest and terms which reflect market conditions at time of issue and the borrowings for 1981 were arranged for terms of 4 to 20 years at effective rates ranging from 13.60% to 18.34%. AGT thus minimizes its overall financing costs by avoiding expenses of issuing and underwriting which would be incurred if long-term debt requirements were met through capital markets.

Income and Retained Earnings

Net Income for 1981 amounted to $1.1 million, as compared to $24.7 million for 1980, resulting in Retained Earnings of $129.3 million at December 31, 1981. The combination of extremely high interest rates, double-digit inflation and a reduction in revenue growth from the levels experienced in prior years has made it impossible, despite expense constraints and improved operating efficiency, to maintain satisfactory earnings at subscriber rates established August 1, 1977. AGT therefore filed a General Rate Application with the Public Utilities Board of Alberta seeking an increase in rates. A hearing of the Interim Rate Application was scheduled for March 1, 1982 and if approved, the new rates were expected to be implemented on April 1, 1982.



1906

The Public Accounts of Alberta detail the costs of building a long-distance line half the distance from Calgary to Banff.

ALBERTA LEGISLATURE

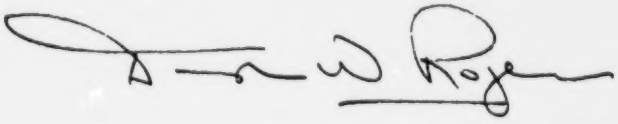
OFFICE OF THE AUDITOR GENERAL

Auditor's Report

To the Members of
The Alberta Government Telephones Commission

I have examined the balance sheet of The Alberta Government Telephones Commission as at December 31, 1981 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



C.A.
Auditor General

Edmonton, Alberta
March 5, 1982

BALANCE SHEET
AS AT DECEMBER 31, 1981

(thousands of dollars)

ASSETS	1981	1980
Telephone property, at cost:		
Buildings and equipment	**$ 2 487 604**	$ 2 061 067
Less: Accumulated depreciation	**786 917**	638 309
	1 700 687	1 422 758
Land	**20 802**	19 581
	1 721 489	1 442 339
Plant under construction	**148 671**	164 213
Materials and supplies	**53 422**	44 152
	1 923 582	1 650 704
Investments, at cost (Note 3)	**2 849**	2 849
Current:		
Cash	**932**	81
Short term investments	**—**	4 500
Accrued interest	**298**	205
Accounts receivable	**106 718**	94 957
Prepaid expenses	**9 393**	7 379
	117 341	107 122
Long term receivable (Note 4)	**268**	519
Deferred charges (Note 5)	**25 896**	23 501
Trust funds:		
Cash, bonds and accrued interest	**2 226**	1 677
	$ 2 072 162	$ 1 786 372

LIABILITIES	**1981**	1980
Long term debt (Note 6)	**$ 1 916 270**	$ 1 644 034
Less: Sinking fund assets (Note 7)	**153 308**	130 450
	1 762 962	1 513 584
Current:		
Bank overdraft	**—**	1 863
Accounts payable	**63 172**	54 982
Wages payable	**43 450**	36 838
Accrued interest	**46 696**	33 711
Service billed in advance	**16 552**	13 534
	169 870	140 928
Deferred revenue	**7 766**	1 901
Retained earnings	**129 338**	128 282
Trust funds:		
Employees' group life insurance	**2 226**	1 677
	$ 2 072 162	$ 1 786 372

The accompanying notes are part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1981

(thousands of dollars)

	1981	1980
Operating Revenues:		
Toll	**$ 488 746**	$ 428 443
Exchange	**223 759**	190 507
Other (Note 8)	**30 525**	24 246
Uncollectible operating revenues	**(8 568)**	(6 368)
	734 462	636 828
Operating Expenses:		
Depreciation	**198 937**	175 773
Maintenance	**144 503**	123 816
Traffic	**34 799**	29 886
Commercial and marketing	**57 676**	45 233
General and administration	**127 451**	99 151
Property and business taxes	**19 134**	12 607
Pension fund (Note 9)	**14 046**	11 687
	596 546	498 153
Net Operating Revenues	**137 916**	138 675
Other Income (Note 10)	**41 303**	25 608
	179 219	164 283
Interest and Other Deductions (Note 11)	**178 163**	139 535
Net Income for the Year	**1 056**	24 748
Retained Earnings at Beginning of Year	**128 282**	103 534
Retained Earnings at End of Year	**$ 129 338**	$ 128 282

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1981

(thousands of dollars)

	1981	1980
Funds Were Provided From:		
Operations:		
Net income for the year	**$ 1 056**	$ 24 748
Add: Items not requiring current funds:		
Depreciation and amortization	**209 522**	185 590
Capitalized interest	**(17 293)**	(10 928)
	193 285	199 410
Long term debt issues	**385 000**	320 000
Decrease in long term receivable	**251**	232
Increase in deferred revenue	**5 865**	1 550
	584 401	521 192
Funds Were Applied To:		
Additions to telephone property, net:		
Capital expenditures	**480 014**	380 957
Less: Items not requiring current funds	**26 369**	19 223
	453 645	361 734
Increase in materials and supplies	**9 270**	6 820
	462 915	368 554
Increase in sinking fund assets	**23 013**	24 850
Additions to deferred charges	**6 460**	862
Redemption of long term debt	**110 736**	119 475
	603 124	513 741
Increase (Decrease) in Working Capital	**$ (18 723)**	$ 7 451

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1981

Note 1 Authority

The Alberta Government Telephones Commission operates under the authority of The Alberta Government Telephones Act, Chapter 12, Revised Statutes of Alberta 1970, and subsequent amendments.

Note 2 Summary of Significant Accounting Policies

(a) Telephone Property
Telephone Property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and interest on funds utilized during construction. Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of the capitalization policy with respect to general overhead costs in accordance with accounting standardization policies of the Trans Canada Telephone System companies.

Resulting from this review, in 1981 capitalization was discontinued for certain general overhead costs that are not related to the level of construction activity. The net effect on the Commission's results for the year was a reduction in net income of approximately $1 900 000. The 1980 figures have not been restated.

(b) Depreciation
Depreciation is provided on a straight line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telephone property are allocated to operations over the remaining estimated useful lives of appropriate property groups.

The composite depreciation rate for the year ended December 31, 1981 was 9.08% compared to 9.33% for the previous year. Total depreciation of $209 666 000 (1980 $184 281 000) includes $8 393 000 (1980 $6 719 000) distributed to other operating expenses and $2 336 000 (1980 $1 789 000) distributed to telephone property.

(c) Deferred Charges
Charges related to long term assets and liabilities with fixed lives are deferred and amortized on a straight line basis over the remaining lives of the assets and liabilities.

(d) Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

Realized exchange gains or losses are reflected in net income for the year.

Unrealized exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

Note 2 (cont.)

(e) Bank Overdraft
Bank overdraft represents the net balance of cheques issued and outstanding in excess of actual bank balances plus outstanding deposits.

(f) Deferred Revenue
Deferred revenue relates to the capital cost of equipment rented under operating leases and is recognized as income on a straight line basis over the estimated useful life of the equipment.

Note 3 Investments

Investments, at cost, consist of the following:

	1981	1980
Telesat Canada		
279 900 common shares without par value	**$ 2 799 000**	$ 2 799 000
Elinca Communications Ltd.		
2 common shares without par value	**2**	—
Westech Systems Ltd.		
45 common shares without par value	**45**	45
500 non-voting preferred shares, par value $100	**50 000**	50 000
	$ 2 849 047	$ 2 849 045

The investment in Westech Systems Ltd. represents 50.6% of that Company's outstanding common shares. The Company's operations are not consolidated in these financial statements. Payments to Westech Systems Ltd. for development and field test of a mobile communication system amounted to $1 385 000 for the year ended December 31, 1981 (1980 $1 820 000) and are included in operating expenses in the statement of income and retained earnings.

Note 4 Long Term Receivable

This receivable resulted from the sale of assets to the City of Edmonton in 1973 and is receivable in equal annual instalments of $288 161 including interest at 7½%. Principal due within one year has been reclassified as accounts receivable under current assets.

Note 5 Deferred Charges

Unamortized deferred charges consist of the following:
(thousands of dollars)

	1981	1980
Unrealized exchange loss, net	**$ 15 514**	$ 18 901
Debenture discounts	**10 048**	4 585
Leasing agent commissions	**334**	15
	$ 25 896	$ 23 501
Amortization charged to net income for the year	**$ 2 536**	$ 2 556

Note 6 Long Term Debt

Long term debt is summarized as follows:
(thousands of dollars)

	1981	1980
Debentures payable in United States funds, maturing 1982 to 1996, bearing interest at 4.75% to 9.50%	**$ 215 217**	$ 217 445
Exchange premium, net, at dates of issue	**13 471**	13 483
Unrealized exchange loss	**26 538**	28 854
	255 226	259 782
Debentures payable in Canadian funds, maturing 1982 to 2001, bearing interest at 5.25% to 17.75%	**1 660 396**	1 382 396
Advances from the Provincial Treasurer, repayable in semi-annual instalments in 1982, bearing interest at 4.50%	**648**	1 856
	$ 1 916 270	$ 1 644 034

(a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.

(b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.50% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.

(c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 2 to 4 years for Canadian dollar issues and 10 to 13 years for United States dollar issues.

(d) Amounts repayable within one year are classified as long term debt inasmuch as it is anticipated that payments will be made from the proceeds of refinancing rather than from current assets.

(e) Anticipated requirements to meet long term debt repayments and sinking fund provisions during the next five years (excluding exchange on debt repayments to be made in United States funds) are as follows:
(thousands of dollars)

Year	Debenture Redemptions	Provincial Treasurer's Advances	Sinking Fund Provisions	Total
1982	$ 152 367	$ 648	$ 22 703	$ 175 718
1983	137 466	—	22 703	160 169
1984	152 592	—	22 703	175 295
1985	103 482*	—	22 703	126 185
1986	111 241	—	22 503	133 744
	$ 657 148	$ 648	$ 113 315	$ 771 111

* A $100 million debenture issue due in 1985 with maturity date extendible to 1991 at the option of the holder is included in the 1985 debenture redemptions amount.

Note 7 Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:
(thousands of dollars)

	1981	1980
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed	**$ 49 206**	$ 36 747
Provincial, direct and guaranteed	**28 099**	24 051
	77 305	60 798
(Approximate market value: 1981 $68 417; 1980 $55 422)		
Investment in the Commission"s own debentures, at amortized cost	**54 517**	57 771
Unrealized exchange gain	**4 469**	4 614
Cash	**119**	67
Short term investments	**13 450**	5 000
Accrued interest	**3 448**	2 200
	$ 153 308	$ 130 450

Note 8 Other Operating Revenues

Other operating revenues consist of the following:
(thousands of dollars)

	1981	1980
Directories	**$ 18 063**	$ 14 707
Rentals	**6 729**	6 070
Miscellaneous	**5 733**	3 469
	$ 30 525	$ 24 246

Note 9 Pension Fund

The Commission makes regular contributions to The Alberta Government Telephones Employees' Pension and Death Benefit Fund which provides service pensions calculated as a function of earnings and years of service. An actuarial review as at December 31, 1980 indicated that the assets of the Fund together with the contributions expected to be received from and on behalf of the members of the Fund are sufficient to provide the benefits under the Fund as they fall due.

Note 10 Other Income

Other income consists of the following:
(thousands of dollars)

	1981	1980
Interest capitalized during construction	$ 17 293	$ 10 928
Sinking fund income	14 418	10 067
Dividends from investment in Telesat Canada Shares	224	168
Miscellaneous	9 368	4 445
	$ 41 303	$ 25 608

Note 11 Interest and Other Deductions

Interest and other deductions consist of the following:
(thousands of dollars)

	1981	1980
Interest and exchange on long term debt	$ 174 638	$ 135 798
Amortization of unrealized exchange loss, net	1 615	2 008
Amortization of debenture discount	895	546
Other deductions	1 015	1 183
	$ 178 163	$ 139 535

Note 12 Commitments and Subsequent Event

(a) Subsequent Event:
Subsequent to December 31, 1981 the Commission entered into a conditional agreement to purchase the Imperial Oil Building in Edmonton at a cost of approximately $55 000 000.

(b) Operating Leases:
The Commission is committed to aggregate rental payments of $17 741 000 under realty and equipment leases having an initial term of more than one year. Minimum annual rental payments during the next five years are as follows:
(thousands of dollars)

Year	Rental Payments
1982	$ 4 785
1983	3 919
1984	3 524
1985	2 323
1986	1 602

Note 13 Comparative Figures

Except as disclosed in Note 2 (a) to these financial statements, the 1980 figures have been restated where necessary to conform to 1981 presentation.

Note 14 Approval of Financial Statements

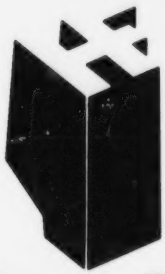
These financial statements were reviewed by the Audit Committee of The Alberta Government Telephones Commission on March 5, 1982 and recommended for approval by the Commission.

ALBERTA GOVERNMENT TELEPHONES STATISTICS

	1981	1980	1979	1978
CORPORATE STATISTICS				
NUMBER OF TELEPHONES				
System Owned	**1 333 358**	1 218 356	1 116 604	1 017 254
Private System	**498 366**	469 035	437 204	405 649
TELEPHONE GAIN	**115 002**	101 752	99 350	86 872
NUMBER OF EXCHANGES	**408**	402	398	387
NUMBER OF TOLL OFFICES	**14**	14	13	29
LONG DISTANCE MESSAGES (in thousands)	**198 930**	177 788	148 957	126 654
TOTAL NUMBER OF EMPLOYEES	**13 429**	12 326	11 229	10 696
FINANCIAL ITEMS (in thousands)				
TOTAL PAYROLL	**$ 307 995**	258 790	214 825	189 045
TOTAL REVENUES	**$ 734 462**	636 828	529 018	443 471
TOTAL EXPENSES (Note 1)	**$ 733 406**	612 080	504 636	427 600
NET INCOME (LOSS) (Note 2)	**$ 1 056**	24 748	24 382	15 871
IMBEDDED COST OF DEBT (OUTSTANDING PROCEEDS)	**11.28%**	9.87%	8.92%	8.68%
LONG TERM DEBT	**$ 1 916 270**	1 644 034	1 437 719	1 303 090
TOTAL PLANT INVESTMENT	**$ 2 657 077**	2 244 861	1 932 576	1 678 979
CAPITAL EXPENDITURES	**$ 480 014**	380 957	314 313	261 070

1977	1976	1975	1974	1973	1972
930 382	856 761	787 825	716 996	645 087	613 203
374 437	349 885	329 734	304 995	281 218	241 732
73 621	68 936	70 829	71 909	31 884	57 512
379	375	373	369	363	366
27	27	28	23	29	32
109 456	95 522	92 171	80 925	66 407	56 112
10 357	9 958	9 572	8 535	7 369	7 239
169 841	149 661	127 542	94 179	73 519	65 855
367 811	307 801	239 786	195 600	162 408	141 369
363 950	306 367	242 481	191 710	155 543	135 130
3 861	1 754	(2 695)	3 890	9 183	6 239
8.35%	8.10%	7.84%	7.55%	6.78%	6.39%
1 167 911	1 036 982	885 754	685 395	572 823	526 828
1 476 011	1 289 070	1 101 687	881 250	740 117	675 745
246 186	243 898	254 980	163 774	102 480	86 492

NOTES: 1. Total Expenses is comprised of Total Operating Expenses, Interest and Other Deductions, less Other Income.
2. 1973 Net Income includes a $2 318 271 gain on disposal of assets. 1976 Net Income includes a $320 296 gain on disposal of land.



Heritage Fund

A sure sign today...for tomorrow

Cover girl Joanne Ternowski is a service representative with Altel Data, AGT's data division.

At left Joanne demonstrates half the customer offerings of 1906. AGT, like all telephone companies, was preparing to lease customers a wall phone or a desk set.

At right, Joanne is seen at work in 1981, among some of the data products which can be attached to the modern AGT network. The telephone, of course, is still basic. On the phone she discusses with a sales representative the details of a customer order. Through the keyboard and terminal she transmits the information in data form to all groups within AGT which must get involved to fill the order, and creates a record in the computer. The machine is a VT-100. At the end of 1981 some 1 200 of these units were in customer service on the AGT network.

In leisure hours, twenty-one-year old Joanne teaches classical music and enjoys ballet.

Number/
Numéro
2

1982 ANNUAL REPORT

TABLE OF CONTENTS

Highlights	1
Commission Members	1
Letter of Transmittal	3
President's Report	4
Commission Report	7
Operations Review	7
Financial Review	16
Audited Financial Statements	20
Historical Summary	30
Officers, Management and Committees of the Commission	32

AGT Telecommunications

1982 ANNUAL REPORT

HIGHLIGHTS

(in thousands)	1982	1981
Plant Investment	$ 2 976 148	$ 2 657 077
Capital Expenditures	$ 473 516	$ 480 014
Subscriber Lines In Service	724	705
Long Distance Messages	205 420	198 930
Total Revenues	$ 825 346	$ 734 462
Net Income (Loss)	$ (56 476)	$ 1 056

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION

Honourable R.J. Bogle
Chairman
Minister of Utilities and Telecommunications

J.A. Barnes
President

D.F. Baillie
Vice President
Customer Sales and Service

J.C.D. Mallet-Paret
Vice-President
Operations

J.R. McDonald
Vice-President
Administration

H.M. Neldner
Vice-President
Finance

J. Szaszkiewicz
Vice-President
Corporate Planning and Network Development

A.F. Collins
Deputy Provincial Treasurer

H.B. Hobbs
Deputy Minister of the Executive Council

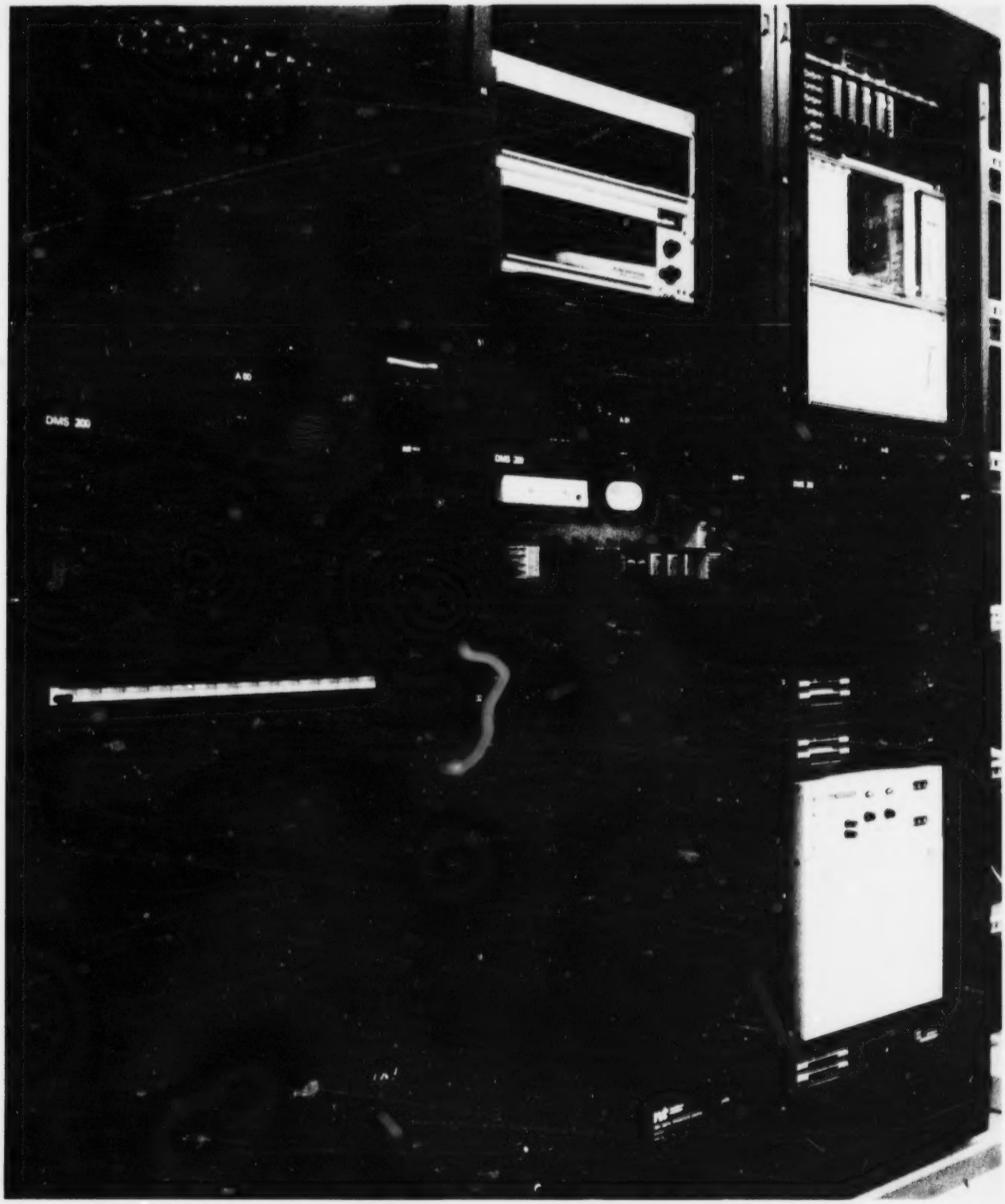
V.A. MacNichol
Deputy Minister
Utilities and Telecommunications

R.A. Bickell
Grande Prairie
Vice-President and General Manager
Canadian Forest Products Ltd.

J.W. Burrows
Calgary
President, Travacon Ltd.

W.A. Graham
Edmonton
Chairman, Western Supplies Ltd.

F.S. Weatherup
Lethbridge
Chairman, Saville Land Development Ltd.



Continued commitment to high quality service. AGT continued its pledge to provide the best in modern telecommunications with the installation of this new DMS 200 digital toll switching machine at Edmonton.

It replaces the 11-year-old #4-A crossbar machine which served so well. With a capacity of 22 000 lines the new machine occupies a mere 93 m² compared to the retired 4-A's 1 852 m².

Alberta

UTILITIES AND
TELECOMMUNICATIONS

Office of the Minister

228 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-3016

To His Honour
Frank C. Lynch-Staunton
Lieutenant-Governor of the Province of Alberta

Sir:

I have the honour to submit the Annual Report of Alberta Government Telephones for the year 1982.

Respectfully submitted

Bob Bogle
MINISTER
UTILITIES & TELECOMMUNICATIONS

Honourable R.J. Bogle
Minister of Utilities and Telecommunications

President's Report

J.A. Barnes
President

Like other businesses, AGT was hit hard by the prevailing economic conditions of 1982. As the year began, there were few clear signs of the severity of the economic downturn. The situation worsened as the months passed, and year-end results indicate that the decline in real GNP is the largest in the post-war period; all provinces experienced negative rates of growth in their economies for 1982. This severe slowdown of the economy had a drastic effect on AGT's financial performance.

As the year progressed, the deteriorating performance of the economy was dramatically reflected in both the volume of long distance calling and network connections. Growth rates of 3.3% and 1.5%, respectively, fell far short of historical growth rates. This sharply reduced demand for service had a devastating effect on AGT's revenue base, and operating revenues for 1982 were $109.2 million less than expected.

During the year inflation and interest rates remained high, and AGT was squeezed between increasing costs on one hand and decreasing revenues on the other.

To meet this challenge, AGT implemented stringent restraint and cost control programs in the areas of wage costs and operating and capital expenditures. Despite all efforts to reduce expenditures to a minimum, however, it was impossible to meet the reduction in revenue growth with matching cuts in operating expenses. The result was a Net Loss of $56.5 million for 1982.

Despite the economic slowdown, AGT had to expand the network to meet the needs of its customers. During the year digital transmission and switching systems were installed, moving AGT closer to its long-range goal of an all digital network. Fibre optic technology was used to relieve congested facilities, and Extended Flat Rate Calling (EFRC), which gives customers a wider area of local calling, was expanded.

In 1982 AGT made a fundamental change in the operation of its business; it ceased to be a monopoly supplier of voice terminal equipment, such as telephone sets and business switchboards. A plan was introduced to allow customers, for the first time, to own or rent their voice terminal equipment, and to purchase this equipment from suppliers other than AGT.

The decision to open this segment of the business to competition was made after careful consideration of the impact the new mode of operation would have on AGT and its customers. The Canadian telecommunications system is one of the best in the world, and the untimely or improper introduction of competition could severely undermine its integrity and strength to the detriment of the public interest. We realize, however, that there is a clearly established trend to increased competition. In 1952 only 2% of AGT's total revenues were subject to competition; by 1972, 12%; and after terminal attachment in 1982, 28%. This trend will continue and is being driven by technological change, a climate of less regulation, and the high growth potential of the telecommunications industry in the Information Age. These driving forces, while presenting serious challenges, will also bring new business opportunities. We are positioning our company to take advantage of these opportunities today and in the future.

In a drive to diversify its business, in 1982 AGT created two wholly owned subsidiaries — Alberta Telecommunications International Ltd. and Alta-Can Telecom Inc. — and entered in a 50%-50% joint venture agreement with NOVA, AN ALBERTA CORPORATION. Three major factors led to the decision to diversify:

- The availability of unique technical skills and know-how that could be marketed outside of AGT;
- The rapid growth of the international market for telecommunications services; and
- The need to generate additional revenues and the desire to contribute to the industrialization of the province.

As we enter 1983, indications are that the Canadian economy has begun to recover. However, the recovery is expected to be slow. Hence, increased economic activity and the consequent increase in demand for telecommunications services will not likely show a significant increase until the latter part of the year.

To weather these difficult economic times, in a climate of constraints with respect to price increases, AGT applied to the Public Utilities Board for a modest increase in its rates of approximately 6%, to be effective April 1, 1983.

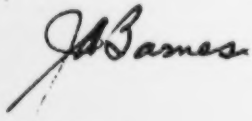
With respect to operating and capital expenditures, AGT will continue its stringent restraint and cost control programs throughout the year.

The past year has increased our awareness that the basis of our strength is the quality and performance of our people. The hiring freeze and the rescheduling of projects produced imbalances in personnel that resulted in the redeployment of staff throughout the company. Our employees showed patience, understanding, and cooperation in dealing with these problems. In addition, their unique technical skills and know-how were a major consideration in the decision to proceed with diversification. The efforts of all employees are much appreciated and I am confident that they will help AGT meet the challenges of 1983 and the future.

I wish to recognize the contribution made by the Honourable Dr. P.N. Webber, who was appointed to the AGT Commission in 1975 and served as Chairman since 1979. It was under his chairmanship that AGT undertook major corporate changes in response to the new competitive challenges in the telecommunications industry.

Two new members joined the Commission in 1982, the Honourable R.J. Bogle, who became Minister of Utilities and Telecommunications and Chairman of the Commission, and Mr. Harry Hobbs, Deputy Minister of the Executive Council.

The Commission has a broad background of government and business experience and I look forward to working with them to maintain AGT as a viable telecommunications system for the future of Alberta.



President

Jim Barnes, president of AGT, visits AGT customer Gerald Schoepp, president of Selmac-Dominion Sales of Stony Plain. Mr. Schoepp, in the red jacket, deals in heavy industrial and agricultural equipment. In 1980 he became a client of Phone Power, an AGT consulting service for business, and added long-distance to his marketing strategy. Selected prospects throughout Alberta are contacted by telephone. This is coupled with an 800 Service number, which potential customers dial toll-free.

In 1981 Selmac increased the number of regular customers by 10.2 percent. In 1982, a much harder year, these customers were retained.

Commission Report

Operations Review

Meeting the Challenges of 1982

In 1982 AGT was hit hard by the prevailing economic conditions. The severe slowdown of the economy led to a sharp decrease in the growth of revenues. Inflation and the cost to service AGT's long-term debt remained high throughout the year and AGT was forced to increase its rates and implement programs of restraint covering wage costs, operating and capital expenditures and the management of materials and supplies.

The program of wage cost restraint began in January, 1982, when controls were placed on the addition or replacement of staff. A complete freeze on hiring was imposed at the end of May. Although the rate of employee attrition decreased as the year progressed, by the end of December, 1982, AGT had reduced the number of its employees on payroll by 615 or 4.6%.

In order to strengthen the existing controls on operating and capital expenditures, various policies and directives were implemented which reduced the operating budget by $60.0 million and capital expenditures by $79.5 million from original funding levels.

An Inventory Control Committee was formed to reduce inventory to a level suitable to the needs of the depressed economy. The objective of the program, in addition to reducing the dollar value of inventory, was also to reduce the associated costs of purchasing and storing the equipment and materials.

The programs of restraint implemented throughout the year, however, created some new problems. The hiring freeze and the rescheduling of projects produced imbalances in personnel, with shortages in one area and oversupply in another. To deal with this problem, committees were formed in the seven regions with the aim of efficient redeployment of personnel. AGT Vice-Presidents met with all levels of management to discuss AGT's deteriorating financial situation. Employees were urged to study their own jobs to identify costs and procedures which could be eliminated without seriously affecting the quality of service.

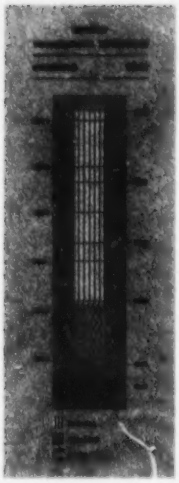
While the negative aspects of the current economic environment are easily visible, we must not lose sight of the positive side effects. One of these is reduced staff turnover which results in greater stability, thereby creating a more experienced and better trained staff. From this flows personnel who are more productive and better able to provide a high level of customer service. Our dedicated employee body enables us not only to perform well in our present depressed economic environment, but equally as important, puts us in a position of being poised to take full advantage of a recovering economy.

The Network Continues to Grow

The economic situation that AGT faced in 1982 resulted in a reduced construction program for network growth. Despite the economic slowdown, however, some expansion of the network was required to meet the needs of AGT's customers.

In 1982 digital transmission and switching systems were installed, moving AGT closer to its long-range goal of an all-digital network.

With the suspension of the Alsands project, the digital radio equipment that was intended for additional long-distance capacity to Fort McMurray was reallocated to the Edmonton - Calgary bypass route.



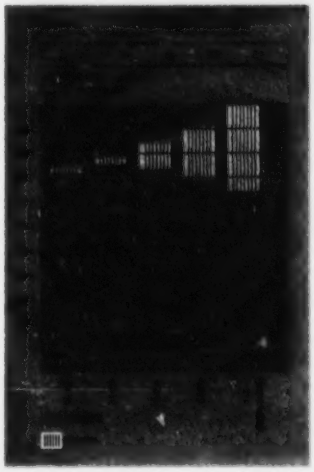
The accompanying graph shows the growth in capacity of the Pashley - Calgary - Crowsnest Ridge portion of the Trans-Canada Toll Route. The capacity of the digital radio was increased by 1,344 voice channels for a total of 6,072. On this same route, the TD-2 analog radio system installed in 1957 was modernized by replacing the vacuum tube technology with solid state technology. This program of modernization will extend the useful life of the TD-2 radio system by ten years.

The capacity of the toll route from Edmonton to Grande Prairie, via Edson, was increased by the addition of a digital radio system. Digital radio was also used to increase the capacity of the Lethbridge - Medicine Hat and Sherwood Park - Vegreville toll routes.

The number of toll centres in Alberta was decreased from eleven to eight. Edson was de-tolled to Edmonton; Drumheller to Calgary; and Peace River to Grande Prairie. In each case, digital radio systems were required to accommodate the de-tolling.

In the switching area, a DMS-200 digital toll switch was installed in Edmonton, replacing the 4-A Crossbar analog switch. A digital toll switch was also installed in Grande Prairie.

AGT continued to take advantage of fibre optic technology. In Calgary, fibre optic cables were used to increase the capacity of interoffice trunks. Digital Fibre Optic Entrance Links were run from the Grande Prairie Radio-Relay to the downtown toll office, on both ends of the Calgary -



Edmonton route, and to earth satellite stations at Sherwood Park (Edmonton) and Forest Lawn (Calgary). The earth stations will be used in conjunction with the Anik-C satellite.

AGT's program of digital conversion also made significant progress at the local exchange level. In the fourth year of the program the percentage of customers served by digital switches increased from 25% to 33% for the entire system. The new technology was introduced to local exchanges at Hinton, Jasper, Ponoka, Nisku, Onoway, Fairview, Grande Prairie, Grand Centre and Camrose. Digital switches were also added to three exchanges in Calgary, and with the suspension of the Alsands project, the digital switch intended for a suburb of Fort McMurray was installed at Stony Plain.

AGT took full advantage of the remote switching capability of digital switching technology, which allows the use of a master switch in a larger office to serve a number of smaller offices (i.e., remote switches). Formerly, each office had to be equipped with a stand-alone switch. Since the remote switches are cheaper, cost savings are realized.

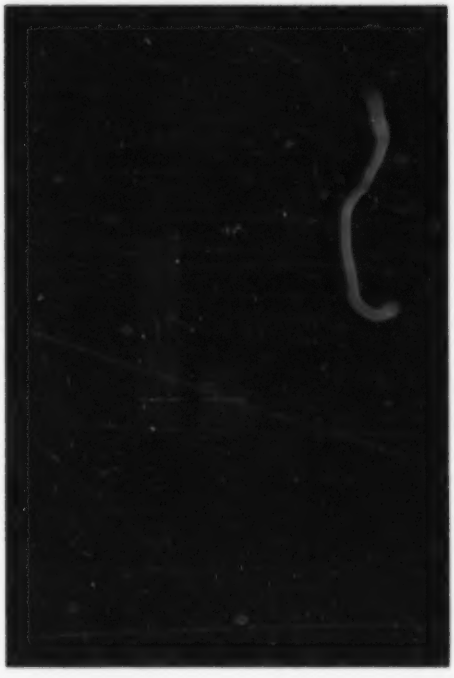
This technology was used in two major applications. In Calgary, digital remote switches were installed at four locations where the capacity of the existing switches was exhausted. Although this is a temporary solution, it has postponed the costly alternative of stand-alone switches. In Camrose, AGT proceeded with its program of end-office consolidation, with nine of the seventeen offices connecting to Camrose being served by digital remotes on a permanent basis.

Basic Service Demand Levels Off

As the year progressed, the deteriorating performance of the economy was dramatically reflected in the declining volume of long-distance calling on the network. The trend to fewer long-distance calls, which was evident in 1981, continued into 1982. By the third quarter, the growth was negative, a situation that had not occurred since the Great Depression. Overall annual growth in 1982 was only 3.3%, compared to an average of 16% for the previous five years.

The depressed state of the economy was also reflected in the reduced growth of new customers being connected to the network. For the entire system subscriber lines connected to the network increased from 705,352 to 723,667 or 2.6%, while the average growth rate for previous years was approximately 7.7%. In Calgary, AGT's largest exchange area, subscriber lines increased by only 4,949, as compared to 25,972 for the previous year.

Although basic service demand levelled off during the year, AGT was committed to continue a number of programs initiated before the economic slowdown.



AGT continued its program of installing telephone jacks in residences. Telephone jacks were installed in an additional 32,989 homes for a total of 447,189 or 90.2% coverage.

EXTENDED FLAT RATE CALLING

Extended Flat Rate Calling (EFRC), which gives customers a wider area of local calling, was expanded in 1982. Customers can now place long-distance calls between the following additional exchanges for a flat rate monthly charge:

Evansburg - Drayton Valley, Wildwood - Evansburg, Irma - Wainwright, Alder Flats - Drayton Valley, Breton - Drayton Valley, Redwater - Edmonton, Niton Junction - Edson, Anzac - Fort McMurray, Fort MacKay - Fort McMurray and Bentley - Red Deer.

OPTIONAL CALLING PLAN

In 1982 AGT introduced the Optional Calling Plan. While Extended Flat Rate Calling serves the majority wish of a group of customers, the Optional Calling Plan accommodates the individual customer. Under this plan a customer has the option of making toll calls to all contiguous exchanges and, rather than be billed for each call, may buy time in blocks. Customers taking the option pay $2.30 for the first half hour of time, and $1.15 for each additional quarter hour.

In June 1982 a one-year field trial began in the communities of Stavely, Carbon, Mulhurst, Holden, Valleyview and Wanham. In November the following ten communities were added to the trial: Enchant, Lomond, Vauxhall, Byemoor, Rochester, La Crete, Onoway, Wrentham, Tofield and Faust. Customers at Tofield and Faust, however, were offered a variation of the Optional Calling Plan. Customers in these exchanges are able to call all exchanges within a 50-mile radius, but for twice the above-mentioned rates.

A New Competitive Era

Customer Ownership Allowed

In 1982 AGT made a fundamental change in the operation of its business; it ceased to be a monopoly supplier of voice terminal equipment (telephones, keysets and business switchboards). The Terminal Attachment Plan allowed customers, for the first time, to own or rent their voice terminal equipment, and to purchase this equipment from suppliers other than AGT. On July 12, 1982, after approval from the Public Utilities Board, AGT began the sale of voice terminal equipment.

The Terminal Attachment Plan has some clear advantages for our customers. They can now choose the option — purchase, lease, or lease-to-own — which is best suited to their needs. In addition, the prices charged for these options are determined in a competitive market.

The initial response of the public indicated strong acceptance of the Terminal Attachment Plan. By the end of December, 5.2% of installed lines had been attached with customer owned terminals. In addition, from July to December, AGT leased 110 trunks to which customers could attach their own equipment.

Serving the Business Customer

The business community continued to increase the use of the special telecommunications services available through AGT. These services are offered by three divisions of AGT: Business Communications, Mobile Communications, and Altel Data.

Business Communications sells or leases voice terminal equipment to business customers and markets network voice services. During the past year, this division increased its revenues by 38% to $89 million.

In 1982, Business Communications introduced Remote Call Forwarding. The new service was offered initially in one of the Calgary exchanges, and is tailored to the needs of the low-volume user. This service allows a firm anywhere on the long-distance network to have a number listed on the Calgary exchange. Any calls to that number are switched automatically to the network and to the office of the user. In total, 214 businesses bought the service and the extension of the service to other exchanges is being planned.

REMOTE CALL FORWARDING

The number of users of the 800 Service (formerly known as IN-WATS) increased from 1,032 to 1,234. The 800 Service is for the high-volume business user, and allows a customer to call a business from anywhere in Canada at no charge to the customer.

Customers using the Wide Area Telephone Service (WATS) increased from 862 to 1,128. This service allows users to make outward calls for a flat monthly rate. The revenue from both WATS and the 800 Service increased by 33% to approximately $20 million.

Demand was high for network-leased services (eg., tie-lines and foreign exchange lines), which require the lease of a dedicated long-distance line joining one location of a firm to another. Revenues from all network-leased services grew to approximately $19 million, an increase of 41% over the 1981 revenues.

At the end of 1982 Business Communications had an installed base of 121,505 stand-alone key sets and 212,938 sets associated with PABX's. The Terminal Attachment Plan has opened this market to competition. To retain and enlarge this base, Business Communications will continue to compete vigorously and effectively.

Dr. William Vaughan, family practitioner at Westlock, discusses the powers of the Intelli-Phone with Loretta Low, salesperson in the St. Albert phoneCentre.

Dr. Vaughan bought the Intelli-Phone in August for use in his home. Among the features found most useful is the encoder. The numbers of all district hospitals are in the set's "brain" and can be set ringing by pushing a single button.

The re-dial feature is also important. When a wanted number gives the busy signal the phone will try every minute for ten minutes. The automatic timer for long distance calls is also a helpful reminder. The offering of highly-specialized residential equipment like the Intelli-Phone became feasible with the purchase option in the Terminal Attachment Plan. It would be impractical to keep a sufficient supply on AGT's rental inventory.

Mobile Communications serves AGT's public mobile system — one of the largest in the world — and, in 1982, provided a number of unique services.

The most significant single project was supplying Petro-Canada with a large microprocessor-controlled mobile network for operations in the Peace River Country. The area served lies in two provinces and comes under the jurisdiction of three operating telephone companies. BC Tel and NorthWest Tel co-operated with AGT in providing the network in their respective territories.

The system links Petro-Canada's central control unit with fourteen repeater sites, each with dial access. The repeater sites are tied together on a 'back-bone' trunk circuit. A unique feature allows the control operator to track the status of each mobile and alarm site.

The number of connections to the public mobile system decreased from 23,412 to 21,183 in 1982, reflecting the slowdown in the economy. Private mobile connections, on the other hand, increased from 18,946 to 19,244.

During the year, two large projects were undertaken for the RCMP. In May, a mobile system was turned up for the Fort McMurray detachment. In September, a job unique in several ways was completed in St. Paul. It joins the St. Paul control centre with eight repeater sites in an area of 8,000 square miles. The system incorporates telemetry control and employs two parallel consoles designed by AGT Mobile Communications.

Altel Data provides business customers with data equipment, including software, and markets network data services. Interest in its products and services remained high in spite of the recession.

In 1982, the number of data circuits under lease grew by 22% to a total of 40,628.

Seven major products were added to the Data Services Product Line. In addition, with Alberta businesses in mind, software packages were developed for the Systems and Software Product Line.

Altel Data made a significant network sale to PCL Construction, an Alberta-based company which in 1982 had 7,000 employees and handled $1.1 billion worth of construction in Canada and the United States. PCL adopted a Datapac system to join their Edmonton headquarters with seven Canadian regional offices. Offices in Minneapolis, Denver and Beaver Creek, Colorado, were joined by interfacing with the U.S. Tymnet network. Datapac was also used to link PCL Construction's head office with major construction sites. The use of Datapac resulted in an immediate saving because its cost was 75% cheaper than the dial-up alternative.

Dome Petroleum was Altel Data's first customer to use high-speed data transmission by satellite. For its summer drilling program in the Beaufort Sea, Dome Petroleum bought the "thin route" satellite service. This service, which uses the Anik-B satellite, was used to move data between Dome Petroleum's head office and its field locations. The high speed capacity of the service made it ideal to exchange large amounts of data. During the summer, data was exchanged on well logging, ice logging, payrolls, stock orders and inventory control.

AGT sales representative Ted Huculak confers with Brian Winter, chief of the Cochrane Volunteer Fire Department. In 1982 the town of 3 800 — first major town west of Calgary — adopted the PERIL system, designed and developed by AGT's Mobile Communications division, for communities with volunteer fire brigades and disaster services.

Chief Winter and 24 volunteers serve Cochrane and a 13-mile radius of surrounding foothills. PERIL gives a citizen calling the fire department number direct access to the brigade's mobile radio system. His call activates the pagers of the chief and the four captains. Each captain has a further connection to the members of his squad.

Chief Winter is holding part of the system — a mobile radio with a touch-tone pad by which he can make regular network calls from the site of a fire.

PERIL has an important safety feature. If a fireman is lost sight of and may be in need of help, his pager can be turned into a directional signal to guide rescuers through smoke.

PERIL reduces response time. It also reduces insurance rates. It was introduced in 1982 after five years of development and was bought by seven towns. Each setup is slightly different, in response to local need. The town of Cochrane built the radio tower — on the hill in the background — and AGT supplied the equipment.

AGT Diversifies

In 1982 AGT made a number of strategic decisions with respect to the diversification of its business activities that will have a significant impact on the future of the company.

Alberta Telecommunications International Ltd.

Through meeting the fast growing telecommunications needs of Albertans in the past, AGT has developed unique technical skills and know-how that can be marketed internationally. Alberta Telecommunications International Ltd. (ATI), a wholly-owned subsidiary of AGT, was formed to market these skills throughout the world.

The objectives of ATI are as follows:
- to generate additional revenues;
- to provide more challenging job opportunities for AGT employees and other Albertans; and
- to be part of the total provincial and national effort to look outside our borders for growth and opportunities.

During 1982 ATI identified a number of opportunities, presented an outline of its capabilities to a number of prospective customers and submitted some significant bids in response to international tenders. Some small contracts were obtained and carried out. It is expected that the work done during 1982 will bear results during 1983 and in the future.

Alta-Can Telecom Inc.

Alta-Can Telecom Inc. was formed during 1982 as a wholly-owned subsidiary of AGT with an initial capitalization of $10 million; it became active in January, 1983.

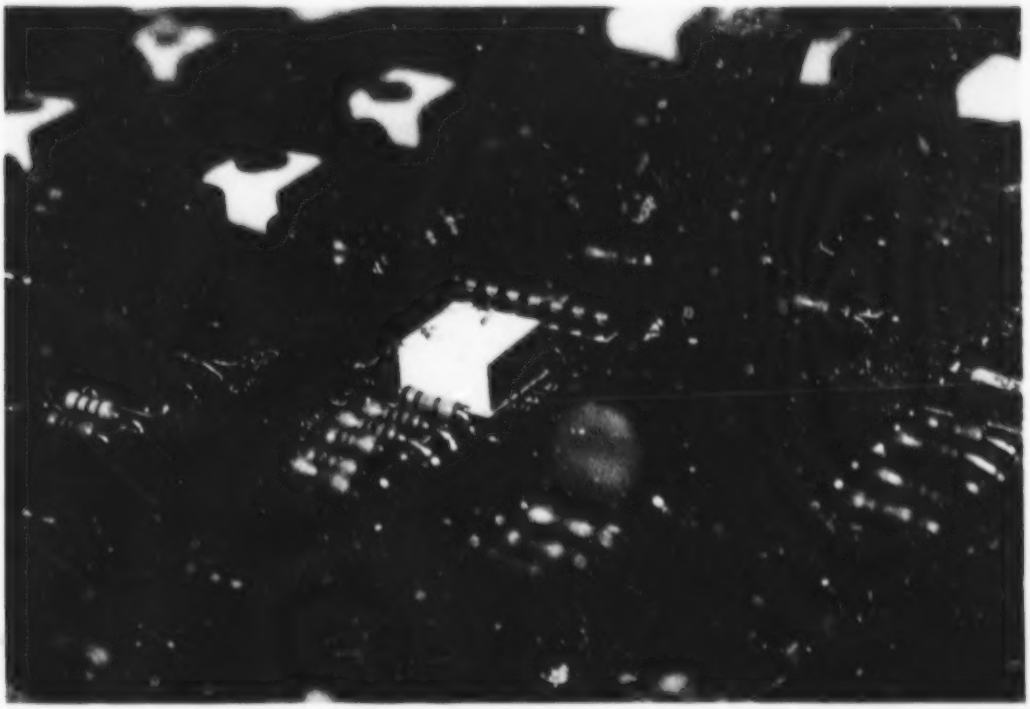
The mandate of Alta-Can Telecom Inc. is as follows:
- to be a profitable business enterprise;
- to contribute to the industrialization of Alberta;
- to support high technology companies in the field of telecommunications through joint ventures or other means; and
- to provide new investment opportunities for Albertans.

Through Alta-Can Telecom Inc. AGT will be able to respond to various joint venture and investment proposals made by private firms. It is AGT's belief that the new company will not only be a profitable investment, but will successfully utilize ideas and skills resident within AGT and the Alberta business community generally, and that it will significantly contribute to the development of the telecommunications industry in the province.

Westech Systems Ltd. — NovAtel Communications Ltd.

In 1979 AGT formed an R&D company called Westech Systems Ltd. jointly with two electronic firms. The role of this company was to develop a roaming cellular mobile radio telephone system which would meet the needs of AGT and other telephone companies. Since no suitable mobile system was available at the time and none to AGT's knowledge was being developed, Westech Systems Ltd. proceeded with the development of the system. It was field-tested in 1982 and will be offered initially to customers in the Edmonton area through AGT's Mobile Communications division.

As development proceeded, AGT realized that such a system would not only meet its own needs, but would also have potential in North American and world markets. In January, 1983 a 50%-50% joint venture agreement between AGT and NOVA, AN ALBERTA CORPORATION was concluded to pursue these world markets. The objective of the joint venture is to actively pursue the manufacturing and marketing of cellular mobile radio telephone systems on a global scale. AGT has thereby created a new high technology company to be known as, NovAtel Communications Ltd., which will contribute to the growth of the province.



Micro chips and printed circuits are the building blocks of many of tomorrow's high-technology projects — projects which will involve AGT's new diversified subsidiaries more and more.

Shining lights of the world of telecommunications transmission, slender strands of glass fibres with phenomenal capacities carry an ever-increasing load of AGT's transmission.

Financial Review

The persistent economic slowdown which began in 1981 turned into a severe and continuing recession by mid-1982, and had a devastating effect on AGT's revenue base and earnings for the year. Operating revenues were $109.2 million less than expected and, despite the introduction of stringent cost control programs, matching cuts in operating expenses could not be achieved over the short term. The result was a $56.5 million loss for 1982.

Operating Revenues

Total Operating Revenues for the year, including the effect of higher rates, effective April 1, 1982, amounted to $825.3 million, an increase of 12.4% over 1981. Long Distance messages increased by only 3.3% in 1982 compared to growth of 11.9% in 1981 and 19.4% in 1980. While yearly growth in toll messages for the First Quarter of 1982 at 10.3% actually showed an improvement over the Fourth Quarter 1981 results of 7.8%, it declined sharply during the Second Quarter to 4.0%, turned negative in the Third Quarter to -1.5%, and registered only a marginal increase in the Fourth Quarter to 1.0%. Long Distance revenues for the year were $531.5 million compared to $488.7 million for 1981, an increase of 8.8%.

Revenues from local exchange service were similarly affected, as the yearly growth of customer lines connected to the network decreased steadily throughout 1982 from 6.5% in the First Quarter to 5.2%, 3.5% and 2.6% for subsequent quarters.

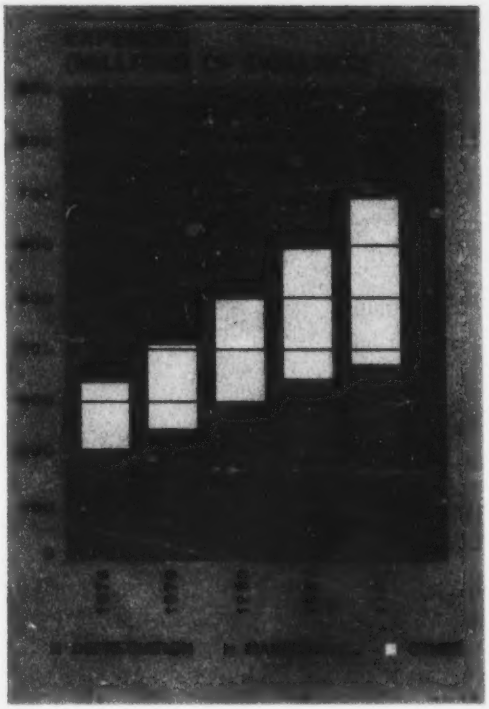
The economic events of 1982 were also reflected in the growth of uncollectible revenue, which increased from $8.6 million in 1981 to $11.7 million in 1982, or 37%. This increase occurred despite an improvement in the average collection time on accounts receivable.

Operating Expenses

Total Operating Expenses amounted to $690.6 million, an increase of 15.8% over 1981, as compared to 19.8% for the previous year.

In an effort to reduce the effects of the unexpected revenue losses, AGT implemented stringent restraint and cost control programs including restrictions on overtime, travelling, training, the purchase of furniture, office equipment, tools, supplies and materials. A hiring freeze reduced the number of employees on payroll by 615, or 4.6%, during 1982.

Depreciation expenses on buildings and equipment amounted to $218.1 million, while maintenance costs totalled $164.5 million, reflecting increases of 9.7% and 13.8%, respectively, over 1981 levels. In total, these two expense categories accounted for 55.4% of total operating expenses. General and Administrative Expenses of $163.0 million included the substantial costs of developing and operating computerized information and administration systems to support the efficient management and operation of the company.



Capital Expenditures, Financing and Interest Charges

Unlike many other business enterprises, AGT's capital expenditures can not be adjusted quickly in response to unforeseen economic contractions. With the paring of over $79 million from the 1982 Construction Budget, capital expenditures of $473.5 million, including $55.0 million for the purchase of the office tower adjacent to AGT's Headquarters, were down from the $480.0 million program in 1981.

AGT financed this Construction Program and debt redemptions of $154.6 million through the issue and sale of debentures to the Provincial Treasurer of Alberta for a total principal amount of $460.0 million and the assumption of three mortgages totalling $17.3 million. These borrowings were arranged for terms of 5 to 7 years at effective rates ranging from 13.5% to 15.8%.

The large financing requirements and the continuing high cost of capital increased interest costs 35.7%, from $178.2 million in 1981 to $241.7 million in 1982. The embedded cost of long-term debt (outstanding proceeds) rose from 11.28% in 1981 to 12.35% in 1982.

Income and Retained Earnings

Despite all efforts to reduce expenditures to a minimum, it was impossible to meet the reduction in revenue growth with matching cuts in operating expenses and AGT experienced a Net Loss of $56.5 million for 1982. Retained Earnings were therefore reduced from $129.3 million at December 31, 1981 to $72.9 million at December 31, 1982.

To be able to weather the current difficult economic conditions, and to improve the financial health of the company, AGT has requested the Public Utilities Board of Alberta to approve an interim increase in its rates of approximately 6%. If approved, the new rates would be effective April 1, 1983 and generate additional revenues of approximately $38.0 million for 1983.

ALBERTA LEGISLATURE

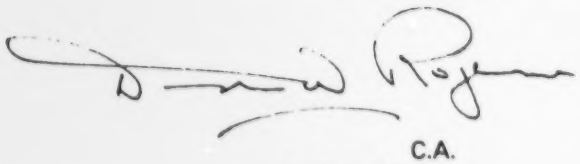
OFFICE OF THE AUDITOR GENERAL

Auditor's Report

To the Members of
The Alberta Government Telephones Commission

I have examined the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1982 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended.
My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



C.A.
Auditor General

Edmonton, Alberta
March 10, 1983

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1982

(thousands of dollars)

ASSETS	1982	1981
Telephone property, at cost:		
Buildings and equipment	**$ 2 814 503**	$ 2 487 604
Less: Accumulated depreciation	**884 195**	786 917
	1 930 308	1 700 687
Land	**46 026**	20 802
	1 976 334	1 721 489
Plant under construction	**115 619**	148 671
Materials and supplies	**57 699**	53 422
	2 149 652	1 923 582
Investments (Note 3)	**3 069**	2 849
Current:		
Cash	**2 731**	932
Accrued interest	**246**	298
Accounts receivable	**111 616**	106 718
Prepaid expenses	**11 409**	9 393
	126 002	117 341
Long term receivable (Note 4)	**995**	268
Deferred charges (Note 5)	**32 159**	25 896
	$ 2 311 877	$ 2 069 936

The accompanying notes are part of these financial statements.

LIABILITIES	**1982**	1981
Long term debt (Note 6)	**$ 2 250 442**	$ 1 916 270
Less: Sinking fund assets (Note 7)	**198 272**	153 308
	2 052 170	1 762 962
Current:		
Accounts payable	**42 496**	63 172
Wages payable	**49 763**	43 450
Accrued interest	**58 829**	46 696
Service billed in advance	**21 341**	16 552
	172 429	169 870
Deferred revenue	**14 416**	7 766
Retained earnings	**72 862**	129 338
	$ 2 311 877	$ 2 069 936

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1982

(thousands of dollars)

	1982	1981
Operating Revenues:		
Toll	**$ 531 545**	$ 488 746
Exchange	**265 510**	223 759
Other (Note 8)	**39 998**	30 525
Uncollectible operating revenues	**(11 707)**	(8 568)
	825 346	734 462
Operating Expenses:		
Depreciation	**218 137**	198 937
Maintenance	**164 490**	144 503
Traffic	**36 516**	34 799
Commercial and marketing	**67 261**	57 676
General and administration	**163 031**	127 451
Property and business taxes	**23 524**	19 134
Pension fund (Note 9)	**17 618**	14 046
	690 577	596 546
Net Operating Revenues	**134 769**	137 916
Other Income (Note 10)	**50 491**	41 303
	185 260	179 219
Interest and Other Deductions (Note 11)	**241 736**	178 163
Net Income (Loss) for the Year	**(56 476)**	1 056
Retained Earnings at Beginning of Year	**129 338**	128 282
Retained Earnings at End of Year	**$ 72 862**	$ 129 338

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1982

(thousands of dollars)

	1982	1981
Funds Were Provided From:		
Operations:		
Net income (loss) for the year	**$ (56 476)**	$ 1 056
Add: Items not requiring current funds:		
Depreciation and amortization	**233 534**	209 522
Capitalized interest	**(17 159)**	(17 293)
	159 899	193 285
Long term debt issues	**477 303**	385 000
Increase in deferred revenue	**6 650**	5 865
	643 852	584 150
Funds Were Applied To:		
Additions to telephone property, net:		
Capital expenditures	**473 516**	480 014
Less: Items not requiring current funds	**40 400**	26 369
	433 116	453 645
Increase in materials and supplies	**4 277**	9 270
	437 393	462 915
Increase in sinking fund assets	**43 424**	23 013
Increase in investments	**220**	—
Increase (decrease) in long term receivable	**727**	(251)
Additions to deferred charges	**1 352**	6 460
Redemption of long term debt	**154 634**	110 736
	637 750	602 873
Increase (Decrease) in Working Capital	**$ 6 102**	$ (18 723)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1982

Note 1 Authority

The Alberta Government Telephones Commission operates under the authority of The Alberta Government Telephones Act, Chapter A-23, Revised Statutes of Alberta 1980.

Note 2 Summary of Significant Accounting Policies

(a) Telephone Property
Telephone Property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and interest on funds utilized during construction. Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of the capitalization policy with respect to general overhead costs in accordance with accounting standardization policies of the Trans Canada Telephone System companies.

Resulting from this review, in 1982 capitalization was discontinued for certain general overhead costs that are not related to the level of construction activity. The net effect on the Commission's results for the year was a reduction in net income of approximately $4 280 500. The 1981 figures have not been restated.

(b) Depreciation
Depreciation is provided on a straight line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telephone property are allocated to operations over the remaining estimated useful lives of appropriate property groups.

The composite depreciation rate for the year ended December 31, 1982 was 8.49% compared to 9.08% for the previous year. Total depreciation of $231 089 000 (1981 $209 666 000) includes $10 344 000 (1981 $8 393 000) distributed to other operating expenses, and $2 608 000 (1981 $2 336 000) distributed to telephone property.

(c) Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

Realized exchange gains or losses are reflected in net income for the year.

Unrealized exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

(d) Deferred Revenue
Deferred revenue relates to the capital cost of equipment rented under operating leases and is recognized as income on a straight line basis over the estimated useful life of the equipment.

(e) Amortization
Deferred charges, discounts or premiums on long term monetary assets and liabilities are amortized on a straight line basis over the remaining lives of the related assets and liabilities.

(f) Consolidation
These consolidated financial statements include the accounts of wholly owned subsidiaries Alberta Telecommunications International Ltd. and Alta-Can Telecom Inc.

Accounts of Westech Systems Ltd., a partly owned subsidiary are not consolidated, as a plan existed for the reduction of the Commission's holding to 50% in that subsidiary.

All significant transactions between the companies included in the consolidation have been eliminated.

Note 3 Investments

Investments, consist of the following:

	1982	1981
Telesat Canada		
279 900 common shares without par value, at cost	**$ 2 799 000**	$ 2 799 000
Elinca Communications Ltd.		
2 common shares without par value, at cost	**2**	2
Westech Systems Ltd.		
59.78 (1981 45) common shares without par value	**203 795**	45
667 (1981 500) non-voting preferred shares, par value $100, at cost	**66 700**	50 000
	$ 3 069 497	$ 2 849 047

The investment in Westech Systems Ltd. represents 67.2% (1981 50.6%) of that Company's outstanding common shares. The method of accounting for common shares of Westech Systems Ltd. was changed from cost to the lower of net realizable value or equity method value, resulting in an amount of $153 364 being added to other income. The change, which is not considered significant, has not been applied retroactively.

Net payments to Westech Systems Ltd. amounted to $4 848 000 for the year ended December 31, 1982 (1981 $1 385 000) and are included in these financial statements.

Note 4 Long Term Receivable

The 1982 receivable results from the sale of assets to customers under a new lease purchase plan. Principal due within one year has been reclassified as accounts receivable under current assets.

Note 5 Deferred Charges

Unamortized deferred charges consist of the following:
(thousands of dollars)

	1982	1981
Unrealized exchange loss, net	$ 22 822	$ 15 514
Debenture discounts	9 075	10 048
Leasing agent commissions	262	334
	$ 32 159	$ 25 896
Amortization charged to net income for the year	$ 3 939	$ 2 536

Note 6 Long Term Debt

Long term debt is summarized as follows:
(thousands of dollars)

	1982	1981
Debentures payable in United States funds, maturing 1983 to 1996, bearing interest at 4.75% to 9.50%	$ 212 850	$ 215 217
Exchange premium, net, at dates of issue	13 459	13 471
Unrealized exchange loss	37 625	26 538
	263 934	255 226
Debentures payable in Canadian funds, maturing 1983 to 2001, bearing interest at 5.25% to 17.75%	1 970 396	1 660 396
Advances from the Provincial Treasurer	—	648
Mortgages payable in Canadian funds, repayable in monthly installments maturing 1984 to 2000, bearing interest at 6.00% to 11.50%	16 112	—
	$ 2 250 442	$ 1 916 270

(a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.

(b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.50% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.

(c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 2 to 4 years for Canadian dollar issues and 10 to 13 years for United States dollar issues.

(d) Amounts repayable within one year are classified as long term debt inasmuch as it is anticipated that payments will be made from the proceeds of refinancing rather than from current assets.

(e) Anticipated requirements to meet long term debt repayments and sinking fund provisions during the next five years (excluding exchange on debt repayments to be made in United States funds), are as follows:

(thousands of dollars)

Year	Debenture Redemptions	Mortgages	Sinking Fund Provisions	Total
1983	$137 476	$1 686	$ 23 664	$ 162 826
1984	152 592	1 548	23 664	177 804
1985	112 872*	364	23 664	136 900
1986	126 241	396	23 464	150 101
1987	376 302	431	23 464	400 197
	$905 483	$4 425	$117 920	$1 027 828

* A $100 million debenture issue due in 1985 with maturity date extendible to 1991 at the option of the holder is included in the 1985 debenture redemptions amount.

Note 7 Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:

(thousands of dollars)

	1982	1981
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed	$ 78 453	$ 49 206
Provincial, direct and guaranteed	34 135	28 099
	112 588	77 305
Approximate market value: 1982 $121 853; (1981 $68 417)		
Investment in the Commission's own debentures, at amortized cost	59 855	54 517
Unrealized exchange gain	5 995	4 469
Cash	94	119
Short term investments	14 700	13 450
Accrued interest	5 040	3 448
	$ 198 272	$ 153 308

Note 8 Other Operating Revenues

Other operating revenues consist of the following:
(thousands of dollars)

	1982	1981
Directories	$ 21 051	$ 18 063
Rentals	14 922	6 729
Miscellaneous	4 025	5 733
	$ 39 998	$ 30 525

Note 9 Pension Fund

The Commission makes regular contributions to The Alberta Government Telephones Employees' Pension and Death Benefit Fund which provides service pensions calculated as a function of earnings and years of service. An actuarial review as at December 31, 1981 indicated that the assets of the Fund together with the contributions expected to be received from the members of the Fund are sufficient to provide the benefits under the Fund as they fall due.

Note 10 Other Income

Other income consists of the following:
(thousands of dollars)

	1982	1981
Sinking fund income	$ 19 753	$ 14 418
Interest capitalized during construction	17 159	17 293
Dividends from investment in Telesat Canada Shares	280	224
Miscellaneous	13 299	9 368
	$ 50 491	$ 41 303

Note 11 Interest and Other Deductions

Interest and other deductions consist of the following:

(thousands of dollars)

	1982	1981
Interest and exchange on long term debt	$ 235 766	$ 174 638
Amortization of unrealized exchange loss, net	2 049	1 615
Amortization of debenture discount	1 818	895
Other deductions	2 103	1 015
	$ 241 736	$ 178 163

Note 12 Commitments

The Commission is committed to aggregate rental payments of $12 044 000 under realty and equipment leases having an initial term of more than one year. Minimum annual rental payments during the next five years are as follows:

(thousands of dollars)

Year	Rental Payments
1983	$ 3 757
1984	3 073
1985	2 243
1986	1 618
1987	647

Note 13 Contingent Liabilities

There are contingent liabilities in respect of claims and pending lawsuits, which have not been provided for in these statements. The probable outcome and amounts are not determinable by the Commission.

Note 14 Approval of Financial Statements

These financial statements were reviewed by the Audit Committee of The Alberta Government Telephones Commission on March 10, 1983 and recommended for approval by the Commission.

HISTORICAL SUMMARY

	1982	1981	1980	1979
CORPORATE STATISTICS				
NUMBER OF TELEPHONES				
System Owned	**1 302 519**	1 333 358	1 218 356	1 116 604
Private System	**479 589**	498 366	469 035	437 204
TELEPHONE GAIN (LOSS) (Note 1)	**(30 839)**	115 002	101 752	99 350
SUBSCRIBER LINES IN SERVICE	**723 667**	705 352	658 292	606 648
CENTRAL OFFICE EXCHANGES	**424**	408	402	398
LONG DISTANCE MESSAGES (in thousands)	**205 420**	198 930	177 788	148 957
TOTAL NUMBER OF EMPLOYEES	**12 814**	13 429	12 326	11 229
FINANCIAL ITEMS (in thousands)				
TOTAL PAYROLL	**$ 351 061**	307 995	258 790	214 825
TOTAL REVENUES	**$ 825 346**	734 462	636 828	529 018
TOTAL EXPENSES (Note 2)	**$ 881 822**	733 406	612 080	504 636
NET INCOME (LOSS) (Note 3)	**$ (56 476)**	1 056	24 748	24 382
IMBEDDED COST OF DEBT (OUTSTANDING PROCEEDS)	**12.35%**	11.28%	9.87%	8.93%
LONG TERM DEBT	**$2 250 442**	1 916 270	1 644 034	1 437 719
TOTAL PLANT INVESTMENT	**$2 976 148**	2 657 077	2 244 861	1 932 576
CAPITAL EXPENDITURES	**$ 473 516**	480 014	380 957	314 313

NOTES:
1. Effective July 12, 1982 a plan was introduced to allow AGT customers, for the first time, to own or rent their own voice terminal equipment, and to purchase this equipment from suppliers other than AGT.
2. Total Expenses is comprised of Total Operating Expenses, Interest and Other Deductions, less Other Income.
3. 1973 Net Income includes a $2 318 271 gain on disposal of assets.
   1976 Net Income includes a $320 296 gain on disposal of land.

1978	1977	1976	1975	1974	1973
1 017 254	930 382	856 761	787 825	716 996	645 087
405 649	374 437	349 885	329 734	304 995	281 218
86 872	73 621	68 936	70 829	71 909	31 884
560 920	521 316	486 896	458 673	427 017	394 703
387	379	375	373	369	363
126 654	109 456	95 522	92 171	80 925	66 407
10 696	10 357	9 958	9 572	8 535	7 369
189 045	169 841	149 661	127 542	94 179	73 519
443 471	367 811	307 801	239 786	195 600	162 408
427 600	363 950	306 367	242 481	191 710	155 543
15 871	3 861	1 754	(2 695)	3 890	9 183
8.68%	8.35%	8.10%	7.84%	7.55%	6.78%
1 303 090	1 167 911	1 036 982	885 754	685 395	572 823
1 678 979	1 476 011	1 289 070	1 101 687	881 250	740 117
261 070	246 186	243 898	254 980	163 774	102 480

OFFICERS, MANAGEMENT AND COMMITTEES OF THE COMMISSION

President	*J.A. Barnes*
Vice-President Operations	*J.C.D. Mallet-Paret*
Assistant Vice-President Operations South	*D.J. Innes*
General Operations Manager North	*W.R. Stuart*
General Operations Staff Manager	*W. Jamieson*
General Services Manager	*W.A. Neil*
Vice-President Finance	*H.M. Neldner*
Comptroller	*F. Parrotta*
Treasurer	*P.H. Thompson*
General Pension Administration Manager	*B.N. Munro*
Director Pension Fund Investments	*R.G. Bertram*
Vice-President Network Planning & Development	*J. Szaszkiewicz*
Assistant Vice-President Corporate Planning & Development	*J.E. Fyles*
General Network Planning & Design Manager	*R.J. Taylor*
General Network Staff Manager	*H.W. Schroder*
General Network Implementation Manager	*J.S. Kortbeek*
General Inter-Carrier & Regulatory Affairs Manager	*W.D. Edwards*
General Corporate Planning & Development Manager	*G. Bidulock*
Vice-President Customer Sales and Service	*D.F. Baillie*
General Manager Altel Data	*H.G. Stech*
General Manager Mobile Communications	*E.A. Tucker*
General Manager Business Communications	*P.G. McLean*
General Customer Sales & Services Staff Manager	*A.G. Gibbard*
Vice-President Administration	*J.R. McDonald*
General Counsel	*S.N. Douglas*
General Personnel Manager	*C. Forbes*
General Public Relations Manager	*N.G. Sarofen*
General Customer Relations Manager	*F.C. Davies*
General Security & Claims Manager	*H.B. Turner*
General Systems & Methods Manager	*H.S. Mandryk*

Audit Committee

W.A. Graham	*Chairman*
V.A. MacNichol	
A.F. Collins	
R.A. Bickell	

Finance Committee

J.W. Burrows	*Chairman*
R.A. Bickell	
J.C.D. Mallet-Paret	
H.M. Neldner	

Human Resources Committee

F.S. Weatherup	*Chairman*
H.B. Hobbs	
W.A. Graham	
J.R. McDonald	

Head Office
Alberta Telephone Tower
1 McCauley Plaza
10020 - 100 Street
Edmonton, Alberta
T5J 0N5

POOR

QUALITY

ORIGINAL